

The Indonesian Quarterly

CURRENT EVENTS

- ☐ Indonesia and The Rise of Resource Nationalism
- ☐ ASEAN Moves Toward Modern Organization

RECENT POLITICAL DEVELOPMENTS

- ☐ Seeking for Victory, Not Biting The Dust:
Political Parties' Situation Prior to 2009 General Elections

RECENT ECONOMIC DEVELOPMENTS

- ☐ Strong Growth of Economy, but with Nose-Diving Investment

VIEW OF REGIONAL AND GLOBAL ISSUES

- ☐ Energy Diversification and The Need for Renewable Substitutes

ARTICLES

- ☐ Competing to Secure The Straits of Malacca and Singapore
- ☐ ASEAN at Forty
- ☐ Regional Approach to Conflict Resolution



CENTRE FOR STRATEGIC
AND
INTERNATIONAL
STUDIES

The Logo



The Indonesian Quarterly is a journal of policy oriented studies published by the Centre for Strategic and International Studies (CSIS), Jalan Tanah Abang III/23-27, Jakarta 10160. It is a medium for research findings, evaluations and views of scholars, statesmen and thinkers on the Indonesian situation and its problems. It is also a medium for Indonesian views on regional and global problems. The opinions expressed in *The Indonesian Quarterly* are those of their authors and do not necessarily reflect the opinion of the CSIS.

To better represent the underlying ideas that gave birth to the CSIS in 1971 the Centre uses as of 1989 the logo that figures on the front cover of this journal. The original, in bronze, designed by G. Sidharta, it consists of a disc with an engraving that depicts the globe which serves as a background to a naked man with an open book laid on a cloth over his lap, his left hand pointing into the book, his right hand raised upwards. Altogether it symbolises the Centre's nature as an institution where people think, learn and communicate their knowledge to whoever are interested, to share it with them, mankind the world over being their concern and the globe their horizon. The nakedness symbolises the open-mindedness, the absence of prejudice, in the attitude of the scholars who work with the Centre, just as it is with scholars everywhere. The inscription reads "*Nalar Ajar Terusan Budi*", which in the Javanese language essentially means that to think and to share knowledge are only the natural consequence of an enlightened mind. It is a *surya sengkala*, that is *chandra sengkala*, a Javanese traditional way to symbolise a memorable year in the lunar calendar, adapted to the solar calendar system. It consists in using words that express the perceived meaning of the commemorated year while marking the year at the same time, each word having a numerical value. Thus, the inscription, in reverse order, represents the year the CSIS was established: 1971.

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ABSTRACTS

Competing to Secure The Straits of Malacca and Singapore

By *Shafiah Fifi Muhibat*

One of, if not the most, important domestic lifelines in the archipelago that overlaps with the Sea Lanes of Communications is the waterway of the Straits of Malacca and Singapore. With such great importance, the fact that since late 1980s the area has been one of the global hot spots of pirate attacks on commercial vessels and fishing boats is of course a grave condition. The safety and security of the Straits of Malacca and Singapore are an international concern, and in particular the concern of the littoral states, i.e. Indonesia, Malaysia, and Singapore. However, the reality is that the littoral states suffer from incapability to provide the maximum safety and security in the area. There was an idea that private security companies be involved in securing the Straits. This article discusses how the littoral states seem to be losing out in the "competition" of providing security in the Straits of Malacca and Singapore, and argues that the existence of these private companies could actually be regarded as a pressure for Indonesia to improve its capacity to be able to "compete" for the trust of the "customers" of security service in the Straits of Malacca and Singapore.

ASEAN at Forty

By *C.P.F. Luhulima*

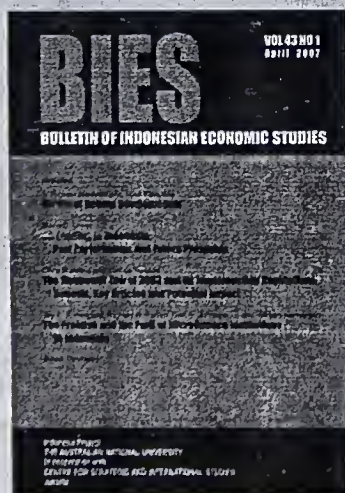
The article discusses the development of ASEAN as a regional organization. The main features of ASEAN will be discussed within the context of changes in ASEAN's strategic

environment. The author argues that ASEAN's endeavors at its 40th birthday to involve wider sectors of its populations and their institutions in its attempt to achieve the goal of, politically, establishing an ASEAN Community with, politically, the central values of democracy, democratic changes of government, of human rights and human security, good governance and, economically, a single market and production base by 2015 will indeed be a colossal challenge. ASEAN, however, ASEAN will need much more time to adapt itself politically and economically to the prerequisites set to achieve the ASEAN Community.

Regional Approach to Conflict Resolution

By Omar Halim

ASEAN has gone a long way to assert itself to play an important role in maintaining, and if necessary restoring peace and security in the region of Asia and the Pacific. Starting from efforts to build confidence among its member countries at the beginning, ASEAN has now indicated its preparedness to undertake, using all its mechanism including the ARF, conflict prevention, conflict resolution and post-conflict peace building activities to maintain international peace and security in Asia and the Pacific. The article discusses ASEAN's approach to conflict resolution. The author argues that once a solution to end a conflict is reached, it would be imperative that the ASEAN takes further steps to consolidate the peace, by identifying the needs to solidify the peace process, which could be undertaken by, or together with, the United Nations. This peace-building process would necessarily be a long-term one.



The *Bulletin of Indonesian Economic Studies* (BIES) is a peer-reviewed journal published by the Indonesia Project, The Australian National University.

The journal fills a significant void by providing a well respected outlet for quality research on the Indonesian economy and related fields such as law, the environment, demography, education and health. In doing so, it has played an important role since 1965 in helping the world, and Indonesians themselves, to understand Indonesia. In addition to papers reporting economic analysis and research, each issue leads with a 'Survey of Recent Developments', which aims to be accessible to non-economists, and helps to account for the journal's diverse readership within academia, government, business and the broader public.

The BIES is published three times a year, in April, August and December and is available in Indonesia from CENTRE FOR STRATEGIC AND INTERNATIONAL STUDIES, Jalan Tanah Abang III/23-27, Jakarta 10160, at Rp 120.000,00 per year, Rp 45.000,00 per issue.

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Indonesia and The Rise of Resource Nationalism

Hadi Soesastro

THE RISE of resource nationalism today manifests itself in moves by host country governments to either raising taxes on international oil and mining companies (IOCs), tightening the state's control over production, changing contract terms or nationalizing the operation.

The trend of resource nationalism appears to have gathered pace this year. In part this has been driven by the high prices of oil and minerals amidst continued strong demand for these commodities.¹ There is also increased popular support for energy and resource nationalism and nationalization in many parts of the world, fueled by the populist rhetoric of opposition politicians while governments place themselves in the defensive. But in several places, the moves originate from within the governments.

In Russia, the rise of resource nationalism has forced Shell and BP to hand over control of the Skhalin-2 and

Kovykta gas schemes to state-owned Gazprom and agreed on a deal with Rosneft, a joint stock company in which the state also maintains a controlling interest. The tax hikes in Britain and Norway are seen as the more "benign" examples of resource nationalism.

High-profile moves have taken place in Latin America. In Venezuela the government of Hugo Chavez took steps to renationalize the property of IOCs. They were given the choice to either turn over majority control to a state-owned company and remain as minority partners or face a complete nationalization of operations. Exxon and ConocoPhillips decided to leave, but others like BP and Statoil are staying. In Bolivia the gas and oil fields are nationalized by force and the government has raised its share of the sales from 18 percent to 82 percent from the biggest fields. Ecuador has also sent troops to take over the holdings of Occidental Petroleum.

¹ Toni Johnson, "The Return of Resource Nationalism", *Daily Analysis*, Council on Foreign Relations, 13 August 2007.

In Africa a similar trend is taking place. The Zimbabwe government recently announced it would take control of uranium, coal and methane projects and the Democratic Republic of Congo is reviewing mining contracts. However, the capacity of these governments to take over the activities of international mining corporations is more limited. To overcome these constraints they recently sought greater assistance from China.

In Iran, following his election on a platform that included opposition to foreign investment in oil and gas, Ahmadinejad immediately sought to tighten state control over the oil industry. It is interesting to note that while operations of Western oil companies are being curbed, China's state oil company CNPC has been invited to play a bigger role in the country's exploration and production. Tehran has invited Beijing to develop a large oilfield in Iran. China is now already supplying some 14 percent of China's oil consumption.

In Uzbekistan and Kyrgyzstan another form of resource nationalism has arisen when the government imposed taxes and initiated bankruptcy proceedings that resulted in a *de facto* expropriation of Western mining companies.

The above trends raise several concerns. As demand continues to grow, in part driven by increased rates of consumption in China and India, there is the concern that this rise of resource nationalism would lead to increased inefficiencies, create significant disincentives to new investment and as such

would hamper efforts to increase production and supply of energy and mineral resources.

A large portion of the world's oil is controlled by state oil companies. Only a few of these, like Petronas of Malaysia and Aramco of Saudi Arabia, operate at world-class standards. These countries have seen an increase in production. However, most of the other large state oil companies, including in Iran and Mexico, have much lower operating standards, and production in these countries has been falling steadily. This indeed should be a cause for major concern as the oil industry is already at a near 20-year low in terms of spare production capacity. This poses further serious questions about energy security. The issue of "peak oil" has become an issue of "political peak oil".

The other concern is over the geopolitics of energy, specifically in regard to the strategic and political implications of China's growing role in the global resources sector as a "demand competitor". In securing the supply of energy it needs, China is widely seen as attempting to replace Western-based companies operating in resource-rich African and other countries by making attractive donations and providing loans to build infrastructure and to exploit their resources. Its interests in exploiting resources to satisfy its huge consumption have also not discouraged China to make deals with rough regimes in various parts of the world. Sudan and Myanmar immediately come to mind. Some have even gone so far as describing China as

the emerging leader of a resources-based political grouping, the so-called "new axis of oil", which includes Russia, Saudi Arabia and Iran.² In the United States some see this "alliance" as posing a serious threat.³ The issue of global security, and not just energy security, has also come to the fore as resource nationalism is on the rise.

This rise of resource nationalism can have serious implications globally if it is allowed to slip out of control. This could happen if irrational behavior is responded to by equally irrational discourses and policies. An open conflict over resources will create severe tensions and may further induce other resource producing developing countries to join in the bandwagon. It cannot be denied that the pressures for sovereign control over resources are real and that a degree of national control should be seen as a legitimate demand.

A dose of reality must be injected into the discourse and a readiness to cooperate towards defining an appropriate sharing of the resources will need to be created. A global dialogue that could lead to a common platform on how to address and to overcome the above potential problems and to seek for constructive solutions would be ideal but perhaps this cannot

be expected to happen in the near future. The world's international economic and political regimes no longer are the effective vehicles for facilitating this dialogue as they are undergoing some kind of crisis themselves.

There might be a greater chance to sensibly explore these issues at the regional level. In fact, this is already happening in East Asia and the wider Asia Pacific region. Energy security has become a major agenda item in such forums as the ASEAN Plus Three (APT), the East Asia Summit (EAS), and APEC. However, the "radical" views are not represented in these forums, with the exception of APEC that involves Russia, if the resource policy of this country can be considered as such. Although the region's energy and resources policy has to be addressed in a global perspective, perhaps the absence of representatives of the "radical" views would better enable the region to come up with sensible policy formulations for the region that can also have some influence on the global discourse. For one thing, the world's major consumers of energy such as China, the United States and Japan are active participants in these forums. The region also has important producers of oil/gas and minerals such as Australia, Indonesia, Malaysia, and Brunei.

It must be kept in mind that about four decades ago Indonesia was at the forefront in devising a workable formula to involve the IOCs in the development of its oil/gas and minerals industry. The Production Sharing Contract (PSC) of 1966 has been widely acknowledged as a novel

² See Jack Lifton, "Resource Nationalism: The Most Important Political Movement of the 21st Century", *Resource Investor*, 26 October 2006.

³ See Joshua Kurlantzick, "Can Public Diplomacy Counter Resource Nationalism?" USC Center on Public Diplomacy, University of Southern California, 28 September 2006.

development and has been successfully implemented in Indonesia and several other countries. In a sense, with the introduction of the PSC and the decision of the government in 1975 to increase its share, Indonesia has already "internalized" resource nationalism.

The implication for Indonesia of the new resource nationalism is again for Indonesia to be at the forefront in devising a new arrangement that accords with the realities and can meet the challenges of the 21st century. Indonesia should capitalize on its past experience.

What is required then is for Indonesia to begin the effort at home. For several years now the implementation of the PSC in Indonesia has been wrought by various problems. This has resulted in the low levels of investment in the industry. Indonesia appears to be suffering from almost the same problems as Mexico currently is. Both countries have a rich resource base. But both are no longer able to meet their own energy needs and can no longer sustain a healthy growth of export revenues from their resources. They are foregoing the opportunity created by the rise in global demand and price increases. Instead, they are seeing their energy import bill rising steadily. These are clear indications that something has gone wrong with these countries.

Indonesia's PSC and Contract of Work (CoW) arrangements not need be completely overhauled. However, major adjustments, with possible renegotiations here and there, are perhaps called for. This process can be complicated as these

adjustments need to consider not only changes in the balance of interests between the parties but also the increasingly more complex challenges that arise from within the Indonesian body politic today. From the perspective of internal politics, a major cause of resource nationalism is the failure to convert the revenues from the resource into development programs that benefit the population at large and not only the elite or the center of power.

In addition, like Mexico, resource nationalism is deeply embedded in the Indonesian psyche, and this has been reinforced by their Constitutions: Article 33 in the Indonesian case, and Articles 27 and 28 in the Mexican case.⁴ While essentially this has long been accommodated (internalized) in Indonesia's PSC and CoW arrangements, and should remain valid as the basic policy platform, new complexities have arisen due to the need for a major reform of the sector or industry. Reforming the energy sector and resolving the tensions between resource nationalism and liberalization has proved to be a major challenge for both the Indonesian and Mexican governments.

There is no reason why these problems cannot be overcome if they are properly defined. A balance can be found between nationalism and realism.

IOCs must also be open for necessary adjustments. As clearly stated elsewhere, it cannot be assumed that contracts can

⁴ Rolando Fuentes, "Mexico's energy dilemma: resource nationalism vs market liberalization," *Oxford Energy Comment*, Oxford Institute for Energy Studies, March 2007.

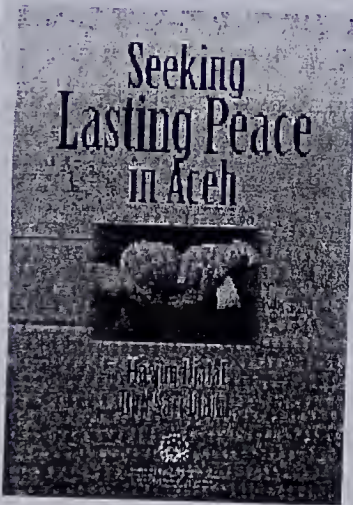
be written in such a way that they will never need to be adjusted in the course of a petroleum contract that usually last for 20 to 30 years.⁵

Making the adjustment to arrive at a new balance is the name of the game, but such adjustments cannot be undertaken too frequently and over short periods of time. That is why they have to be

thoughtfully crafted and with good intentions. To produce the balance, each party in the arrangement must bring something to the table that is recognized and respected. The contract must also be balanced over time, ensuring that it can have validity for a long enough period so as to provide the necessary predictability and sustainability of the arrangement.

⁵ See Tengku Nathan Machmud, *The Indonesian Production Sharing Contract – An Investor's Perspective* (The Hague: Kluwer Law International, 2000).

SEEKING LASTING PEACE IN ACEH



Authors: *Hasjim Djalal* and *Dini Sari Djalal*

Published by *Centre for Strategic and International Studies (CSIS)*, Jakarta.

After nearly 30 years of armed conflict, peace agreement was finally achieved between The government of Indonesia and the Free Aceh Movement (GAM) in 2005. This was then followed by the enactment of a new law on the Governing of Aceh to be used as the basis on which Aceh can exercise authority over its own affairs.

In this book, the authors conclude that it requires a strong consolidation to have a long lasting peace in Aceh. Consisting of 30 essays in total, the book is divided into 6 parts. The first part, consisting of 8 essays, outlines the history of the conflict. Part Two presents 7 articles focusing on the long journey toward peace.

Part Three comprises 6 essays discussing the tsunami and its impact on the Aceh peace process. The rest contains essays focusing on the peace process and its implementation.

The book is useful for those who need to know more about peace in Aceh and its future challenges.

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ASEAN Moves Toward Modern Organization

Bantarto Bandoro

KNOWING AND understanding what is happening in ASEAN now and in the future is very important for all walks of life in ASEAN as well those who have been in continuous political, economic and strategic contact with ASEAN for the past four decades. ASEAN knows very well that the regional integration its leaders have long dreamed of has not been an easy course, but ASEAN is aiming hard at it through much fresher and bolder regional policies.

This year ASEAN is again in the international spotlight not only due to its 40th anniversary, but also because its anniversary comes at a time when a push for a much more institutionalized ASEAN is stronger. Many hope for the highly anticipated ASEAN Charter, a document which will serve as the grouping's legal basis for conducting relations.

Many have lauded the organization for withstanding the 1997 economic crisis and maintaining political peace among its members since its inception in 1967. What is at the central debate, now and at least

for the next eight years, is the desire, expressed at the ASEAN Summit in Bali in 2003, for ASEAN to become a community in a way that would help ASEAN build a stable and secure region as well as more peaceful intramural relations. Such an idea is assumed to have been taken as a response to the changes that have occurred in ASEAN's strategic environment.

ASEAN will certainly face even more severe security, political as well economic challenges in the future, and there is a belief that its current working mechanism does not seem to support the way the grouping is addressing new and acute regional problems. ASEAN needs to evolve into a much more solid, effective, adaptive and institutionalized regional grouping.

It is against such a background that the idea of transforming ASEAN into a single community came into being. The basic idea is for ASEAN to be able to respond collectively and promptly to intra-state conflict and security challenges from within as well outside the region

based on the understanding that a community would provide a bigger assurance that conflict, if it is to occur, would be solved in a peaceful manner.

Thus, ASEAN, unlike 20 years ago or so, now has shown no hesitation to move toward integration as envisioned first by Soeharto in his speech to the session of parliament in 1966. ASEAN's decision in Bali in 2003 to embark on a new platform for the ASEAN Community suggests the start of what would be seen as the long process toward, and heated debate about, integration.

The underlying idea of community is to establish norms, principles and expectations that facilitate cooperation toward solving problems of common concern in a way that meet the expectations of the members of the community. We are not sure whether Soeharto's speech in 1966 was the main reference for the Bali decision. But if one is to seek for one it is perhaps what Rajaratnam has said during the signing of the Bangkok Declaration that "if we do not hang together, we of the ASEAN nations will hang separately".

Rajaratnam might have anticipated that when ASEAN faces tremendous challenges in the decades ahead and if it is to survive, it will have to resort to a much more institutionalized working mechanism and develop common understandings about certain norms. As we see, ASEAN regional initiatives at least in the past five years are meant to change the original outlook and posture of ASEAN into one that corresponds with the challenges and threat it faces. The adoption of the ASEAN

Charter is thought to be a way to enable them to hang together legally as well as politically. The just-finished ASEAN Ministerial Meeting (AMM) in Manila stressed the importance of codifying the principles, values and norms of ASEAN into a charter and in sustaining the momentum towards transforming ASEAN into a rules-based organization so that it will be capable of performing a greater role in regional and international affairs.

ASEAN is expected by its leaders to become the ASEAN Community by 2020, a community that is assumed to have all the modalities, capacity, common understanding on certain issues and institutional backups not only to face future political and strategic challenges, but more importantly the willingness to deal with the domestic problems of members of ASEAN. Perhaps the long-held doctrine of non interference should be seen as no longer relevant if ASEAN wishes to be seen as a real community. Here lies the importance of the charter in which it legitimizes such kind of an action. The legitimate formula would be the decision to give up sovereignty.

Not only that, but ASEAN might also consider establishing a regional institution that possesses the mandate to act supranational just to give feeling, if not expression, to the desire to relinquish the non-interference doctrine it has long held. The acceptance by the recent AMM of a human rights body is a positive sign of such a new outlook of ASEAN.

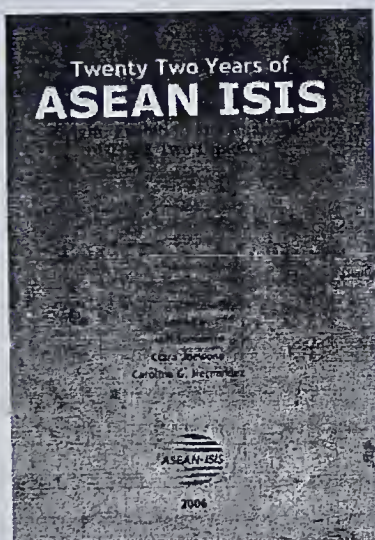
However, one may see that this might not be sufficient for ASEAN to hang

together beyond its current age. What is also important is to ensure compliance and the effective implementation of whatever decisions are taken by ASEAN as a community.

Deeper and stronger commitments by ASEAN to adopting a totally different

outlook, where rules would be of paramount importance and the basis for ASEAN's community relations, need to be expressed more openly. This is the way to convince people that ASEAN will really be integrated and become a modern organization, or one might as well see ASEAN nations hang separately. Time will tell.

TWENTY TWO YEARS OF ASEAN-ISIS ORIGIN, EVOLUTION AND CHALLENGES OF TRACK TWO DIPLOMACY



Editors: *Hadi Soesastro, Clara Joewono, Carolina G. Hernandez*
Published for ASEAN-ISIS by Centre for Strategic and International Studies (CSIS), Jakarta.

ASEAN-ISIS is one of the regional networks in the Asia Pacific that was established in 1988 in Singapore with the signing of the Statutes of ASEAN-ISIS. Since then, ASEAN-ISIS was registered with the ASEAN Secretariat as an ASEAN-NGO.

As a think tank, ASEAN-ISIS has long practiced and shaped the so-called Track Two diplomacy. There is a greater interest in the function of ASEAN-ISIS and the Track Two process since community building in ASEAN and in the wider East Asia and Asia Pacific region requires the creation of networks involving individuals and non-governmental institutions that actively develop ideas to promote regional cooperation and propose policy actions through an active engagement with governments.

This book contains 11 articles written by scholars from ASEAN-ISIS member institutions as well as those from other institutions but who had been actively involved in various ASEAN-ISIS activities. It discusses the progress and achievement as well as difficulties and challenges of the network as perceived and experienced by those who had driven the process or had actively participated in the networks activities over several years.

The publication of this book aims at disseminating information of how Track Two diplomacy has been shaped and utilized in community building in particular among ASEAN member countries. The book is therefore recommended for those who are interested in understanding how such diplomacy works.

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REVIEW OF POLITICAL DEVELOPMENT

Seeking for Victory, Not Biting The Dust: Political Parties' Situation Prior to 2009 General Elections

Indra J. Piliang

BACKGROUND

POLITICAL PARTY is the backbone of grabbing the independence of the Republic of Indonesia stirred by intellectuals. Independence movement was more a fruit of a political struggle than an armed one (physical revolution), which has been often historically claimed by supporters of the military dual-function. The presence of political parties at the national stage was mandated by the then Vice President Muhammad Hatta. However, the general elections were only held for the first time in 1955 to elect legislative members and those of the Constituent Assembly. The participants included individuals, national and local political parties and other organizations. During the period of 1955-1959 the government system used to be parliamentary. Consequently, the cabinet fell and rose because it was led by a Prime Minister who had received no wide supports from the parliament.

A decree issued by President Soekarno on 5 July 1959, declaring a return to the

1945 Constitution to replace the 1950 Provisional Constitution, automatically grounded political parties down. The parliamentary system was automatically no longer in effect, replaced by the presidential system in accordance to the 1945 Constitution. Under the system, President Soekarno controlled the situation. President Soekarno also appointed himself as a lifelong president. Political parties remained survive, but only as parts of interest groups, preference groups or pressure groups. Thus, political parties' claims were not tested through general elections, but were only symbolic closeness to the figure of the president. The Indonesian Communist Party got supports, while the Masyumi Party, on the contrary, was oppressed through a bamboo-splitting politics (lifting one and stepping on the other).

This period was ended by a coup-d'état committed by military officer Col. Untung cs. It led to the crushing of PKI that claimed many victims. Soekarno was

eventually toppled down by the military political power, particularly from the Army, backed by a number of intellectuals and the student movement. Soeharto took over the power and put Soekarno under detention. The rule went to Soeharto, who slowly emerged to be president named by the Provisional People's Consultative Assembly. The control over politics continued, but it was done elegantly.

The life of political party system did not go well. There were efforts to return sovereignty to the people through the 1971 general elections. During the elections, contested by 10 participants, Golongan Karya (the Functional Group) won. Through intensive approaches, the participants of the 1977 general elections were limited to only three, consisting of the United Development Party (*Partai Persatuan Pembangunan*/PPP), Functional Group Party (*Golongan Karya*/Golkar), and the Indonesian Democratic Party (*Partai Demokrasi Indonesia*/PDI). The restraints over the life of political party system began. The control over the government was in the hands of executives, particularly the president. Democracy, including differences in opinions, was emasculated. Intellectuals became a group vulnerable to repression, either in their capacity as students, academicians, writers, men of letters, etc. Political parties also continued to face internal rifts, especially ahead of a congress or conference. It reached its peak with the 27 July 1996 incident, regarded as the accumulation of conflicts and interference within PDI. Political parties were only flavoring spices in the groove of Pancasila (Five Principles) Democracy.

The 1999-2004 Era

The latest general elections under the New Order regime were held in 1999. Political parties, which were born after 1998, could participate in the elections. The freedom to set up political parties was also followed by the admission of political parties into the membership of the General Elections Commission (KPU). But, the number of political parties participating in the 1999 general elections were in fact too many (i.e., 48 parties). Only six political parties passed the electoral threshold rules, including PDI-Perjuangan (Struggle-Indonesian Democratic Party), Golkar Party (Functional Group Party), PPP (the United Development Party), PKB (The National Awakening Party), PAN (The National Mandate Party), and PBB (The Crescent-Star Party).

The government consolidation did not work well either. If in the parliamentary system the prime minister fell from and rose to power, in the presidential system there is no dominant political power in the People's Consultative Assembly (MPR), so the president and the vice president fell from power and were to be replaced. President Abdurrahman Wahid was impeached by MPR in 2001. Vice President Megawati Soekarnoputri was named his successor until the end of her term in office. Hamzah Haz rose to be vice president. The life of political party system still also counts on figures despite some progresses in the aspects of platforms and programs compared to those of previous political parties, which were too general. A political party has a right

to receive IDR 1,000 per vote from the State Budget (APBN) and the Regional State Budget (APBD).

The 2004-2007 Era

Twenty-four political parties joined in the general elections with rules being adjusted to the amended 1945 Constitution. Only seven political parties, namely Golkar Party, PDI-Perjuangan, Democrat Party, PPP, PKB, PAN and PKS (The Justice-and-Welfare Party), could pass the electoral threshold. Seventeen others failed. At this stage, the influence of political parties has faded away despite getting wider chances to grab positions as regional heads and deputies during local elections. Those who emerge in the local elections are instead individuals, while political parties act not more than the ones that provide tickets or play a role as brokers. The political costs are not only a little, so only those who are financially capable can contest in the regional elections.

Presidential and regional head elections reduce the functions of party system as executive posts have been more strengthened. Difficulties in promoting internal cadres have forced political parties to act pragmatically by supporting the outsiders, particularly the incumbents, business figures or those from other circles who have strong influence, fund and popularity. Survey agencies have also determined political parties' victory and loss more than the parties themselves. The cost to organize a political life gets higher. The pattern of coalition committed by political parties has sparked a similar view among

the public that actually, there are neither real opposition nor government parties. All political parties want to be both opposition and government parties at the same time.

The 2007-2009 Phase

Recently, debates on the sole principle of a political party have started to emerge again. This is a huge setback, because almost all the requirements to establish an organization or to recruit public officials always include Pancasila. It also happens to a discourse regarding the existence of the Party-Owned Enterprises (Badan Usaha Milik Partai/BUMP). The idea on BUMP is acceptable in socialist countries, particularly in those having cooperative networks. In Indonesia, however, it is difficult to have it as an effort to make the party life healthy.

A significant progress has started with a proposal to solve internal and external conflicts by setting up the Commission of Arbitration and naming special judges for party disputes. The idea has not been completely finalized, and it will be good to keep it developing. Indonesia should not be occupied by too many parties only because of a matter of losing in the congress or conference, as one of the party's functions is to manage conflicts. Another thought is related to political education on whether this function is implemented by political parties or instead, political parties are parts of those that receive the process of political education. It is also related to political education curriculum, which is being implemented.

Prior to 2009

In the next development, the competition in the 2009 general elections has been dragged back to the present. Like a competition, in September 2007 alone, PDI-Perjuangan Chairwoman, Megawati Soekarnoputri, and Head of the Board of Patrons of the National Awakening Party, Abdurrahman Wahid, expressed their willingness to be nominated as president and vice president. Moreover, the Golkar Party Chairman Jusuf Kalla will be brought as a presidential candidate during its national leadership meeting after his party finds out the total votes and seats resulting from the 2009 legislative elections. "If the figures are significant, the national leadership meeting will un-animously declare the chairman as presidential candidate," said Priyo Budi Santoso, chairman of the Golkar Party faction at the House of Representatives.¹

The quick steps taken by the political figures in expressing their readiness to run for presidency, while each political party gets more intensive to prepare themselves through consolidation or working meetings, show strong indications that the political process to get power in the 2009 general elections has resumed. The current political development delivers a message on how each elite and its political party do not actually cooperate, but seek ways to achieve and control the power individually or only for the interest of the

group. They are seeking for victory and no one wants to lose or give up.

PDI-PERJUANGAN

The party, which most strongly expressed opposition against the national government, keeps conducting important political maneuvers. In the latest development, PDI-Perjuangan held the National Working Meeting (Rakernas) II and the National Coordinating Meeting (Rakornas) I in Jakarta. The coordinating meeting was attended by more than 16,000 executives of PDI-Perjuangan from across the country, from the district, regency, and provincial to central levels, which was claimed as the biggest party executive meeting in the history of the Republic of Indonesia.² A number of national political figures were also present, including the Golkar Party's Head of the Board of Patrons, Surya Paloh, PPP's Head of the Party Advisory Board, Bachtiar Chamsyah and PKB's Head of the Board of Patrons Abdurrahman Wahid. Several senior government officials also came to deliver speeches, including Chairman of the Constitutional Court, Jimly Asshiddiqie, MPR Speaker Hidayat Nur Wahid and Governor of Bank of Indonesia, Burhanuddin Abdullah.

At the conclusion of the coordinating meeting, Megawati Soekarnoputri broke into tears when expressing her willingness to be nominated as a 2009 presidential

¹ "Kalla, Golkar Party's 2009 Presidential Candidate," *Koran Tempo*, Thursday, 20 September 2007.

² Interview with Pramono Anung, Secretary General of PDI-Perjuangan, 20 September 2007.

candidate. The meeting participants immediately and enthusiastically welcomed her readiness. According to Tjahjo Kumolo, chairman of the PDI-Perjuangan faction at DPR, there were four factors that made Megawati willing to be nominated. First was the party's internal factor regarding PDI-Perjuangan's solidity and voters in the 2004 general elections. Second was external factor on whether her running mate will be able to give her more votes or not. The third factor was foreign elements on whether the international community will support the candidates from PDI-Perjuangan or not. Fourth was X factor, namely the election organizers (KPU). We can not be sure yet whether KPU really works independently or some KPU members work for certain candidates so when their candidates win, they can be ministers, for example. And, the most important thing is whether KPU can organize general elections orderly and smoothly.³

PDI-Perjuangan Secretary General Pramono Anung stressed that Megawati's running mate—as vice presidential candidate – must meet three criteria. First he or she must have the same ideological line with PDI-Perjuangan as a nationalist party. Second, the candidate to be nominated must be able to gain votes for PDI-Perjuangan. He said that based on preliminary calculation, PDI-Perjuangan would be able to win the presidential election if it can get more votes. "Third,

the candidate to be nominated by PDI-Perjuangan does not have physical defect and has a good image before the public. We will not choose those who were once involved in criminal cases," revealed Pramono. Moreover, PDI-Perjuangan will open possibilities to build coalitions with other parties. Until today, however, PDI-Perjuangan has not decided which parties it will invite for a coalition.⁴

PDI-Perjuangan's increasing confidence has been reflected in some moments they made. On 24 August 2007, the PDI-Perjuangan faction at DPR submitted a report to the public in a full-page advertisement in *Kompas* daily. The report was welcomed, at least among pro-democracy activists, because it also listed the names of the faction's members and their contact numbers. PDI-Perjuangan also obviously showed its power by holding an open meeting with Surya Paloh (Head of the Golkar Party's Board of Patrons) in Medan and Palembang. Furthermore, in regional direct elections, PDI-Perjuangan has claimed of grabbing 10 gubernatorial positions in the 17 already-organized regional elections. Certainly, the victories were not fully obtained by PDI-Perjuangan because it also built coalitions in many regions. In the Jakarta regional elections, for example, PDI-Perjuangan even set up a coalition with a total of 20 political parties, including the Golkar Party, the Democrat Party, PPP, PKB, PAN and other parties to back Fauzi

³ Tjahjo Kumolo, "Empat Dasar Optimisme PDIP," *Suara Pembaruan*, 25 September 2007.

⁴ "Mega Capres, PDIP Buat 3 Kriteria Ca-wapres," *Seputar Indonesia*, 10 September 2007.

Bowo-Prijanto. The pair won the Jakarta regional elections.

THE GOLKAR PARTY

Unlike PDI-Perjuangan, the Golkar Party faces a number of problems. First, the Golkar Party's internal circle questioned the initiative of a meeting between PDI-Perjuangan and the Golkar Party in Medan and Palembang. The initiative was regarded as a political maneuver of the Golkar Party's Head of the Board of Patrons Surya Paloh. Second is the dismissal of Kamarussamad, chairman of the Young Caucus of the Golkar Party (KMPPG) by the Young Force of Indonesian Development (AMPI), a Golkar Party wing organization. The decision was made following Kamarussamad's initiatives to organize the National Meeting of Golkar Cadres in Bali on 19 – 21 August 2007.

Third is the controversy over a thesis written by former Golkar Party Chairman Akbar Tandjung. In his thesis, Akbar quoted an article written by Dick Tomsa⁵, who said that the election of Vice President Jusuf Kalla as chairman of the Golkar Party in 2004 showed that the Golkar Party was still full of power-oriented people."⁶ Jusuf Kalla immediately

responded it by saying that a political party is established to seek power. The power it has is used to channel the aspiration of its people aiming at achieving people's welfare. To achieve the goal, a political party must win the general elections. "If it doesn't seek for power, just dissolve the political party. Make it as a non-governmental organization (NGO)," said Jusuf Kalla when being questioned by the press at the Vice Presidential Palace.⁷

Fourth is a plan to drop convention in the mechanisms of the Golkar Party's presidential election. The convention, which was once initiated by Akbar Tandjung, has been apparently considered to be harming the political interests of Jusuf Kalla as incumbent vice president. The mechanisms of convention, which was participated by the Golkar Party executives who have also become executives in state institutions, will put the party in a difficult position. By the convention, it will surely be difficult for Jusuf Kalla, Aburizal Bakrie or Ginandjar Kartasasmita to act as participants due to their important positions in the state institutions. The figure, which is regarded of being mostly benefited by the convention, is only Akbar Tandjung or those who do not control the government.

From the four problems appearing on the surface, it can be seen how the Golkar Party's internal solidity has not been built. The Golkar Party is occupied with its

⁵ Dirk Tomsa, "Bloodied but unbowed: Golkar still dominates Indonesian politics," *Inside Indonesia*, July - September 2005.

⁶ Akbar Tandjung, "Partai Golkar dalam Pergolakan Politik Era Reformasi: Tantangan dan Respons," A Summary of Thesis, Yogyakarta: Gadjah Mada University, 24.

⁷ *Kompas*, 4 September 2007.

success to have long stayed in the government, not taking a role as an opposition group. The worries can be seen from how they shatter the strategies to set up the National Coalition initiated by Akbar Tandjung, Megawati Soekarnoputri and Hamzah Haz. There is of course no such free lunch for showing loyalty to the administration of Yudhoyono-Kalla. The Golkar Party tries to fill ministerial positions in the cabinet; some submit a list of names for the positions. However, using the prerogative rights of the president and presidential aides, Yudhoyono seems ignoring pressures from groups carrying the Golkar Party's name to get positions in the cabinet.

The main problem for the Golkar Party is how to determine its presidential candidate in the 2009 election. The choice has started to be determined, namely through a national leadership meeting. The mechanisms of the national leadership meeting tend to be more like an inauguration than seeking for a figure outside the party done through a convention. By the national leadership meeting, the chances of external figures to run for presidency by the Golkar Party vehicle are actually almost closed. By the decision for no longer organizing a national leadership meeting, it can also mean that Kalla has a big chance to run for presidency.

Thus, in relation to Yudhoyono, it is expected that most probably, Kalla will be nominated as presidential candidate from the Golkar Party. The first reason is that the mechanisms of convention have been dropped. Second, from the aspect of political supports, the Golkar Party gets

stronger supports than the Democrat Party. Third, Kalla is chairman of the Golkar Party, different from his condition when participating in the 2004 election not as chairman of the Golkar Party. Fourth, mass media shows signs of an eternal fight between Yudhoyono and Kalla more than their duet.

THE DEMOCRAT PARTY

As the party of the government, the Democrat Party has benefits to make the achievements of Yudhoyono-Kalla's administration as part of internal progress. However, the achievements they reached are not outstanding. President Yudhoyono faces too many important problems, starting from the tsunami disaster in Aceh and Nias, the earthquake in Yogyakarta, West Sumatra or Bengkulu, to his decision to raise fuel prices.

The political synergy of the Democrat Party gets weakening, proved by the results of surveys conducted by the Indonesian Survey Foundation. The Democrat Party is also unable to make a policy breakthrough that can improve Yudhoyono's popularity. The Democrat Party also focuses more on the discourse of the 2009 presidential election that strengthening the capacity of the organization to win the legislative elections. The party only has a few prominent and influential figures, such as Ahmad Mubarak, Anas Urbaningrum or Suthan Batugana. Besides that, the party has a number of artists or figures, who are trying to be politicians, more than being the rulers, while structurally, the party has more than

1,000 executives in its central executive board and is a corpulent organization.⁸

In a related development, the Democrat Party's Deputy Chairman Ahmad Mubarak said that his party still expects Kalla to be willing being a vice presidential candidate as a running mate of Susilo Bambang Yudhoyono in the forthcoming election. But Kalla's recent rally indicates that he is verily likely to be nominated by Golkar as its presidential candidate. Therefore, the Democrat Party must start seeking another figure to replace Kalla. However, the party has not planned to announce its presidential and vice presidential candidates. Ahmad disclosed that possibly, the names that will be considered to be SBY's running mate are young figures. They include MPR Speaker, Hidayat Nur Wahid, Constitutional Court Chairman Jimly Asshiddiqie and Muhammadiyah Chairman Din Syamsuddin. "Those names will be studied and considered to be SBY's running mate, his vice president if possible," said Mubarak.⁹

Although it has been officially decided through the mechanisms of organization, the Democrat Party will keep nominating Susilo Bambang Yudhoyono, chairman of the Board of Patrons of the Democrat Party Central Executive Board, to be presidential candidate. "(We)'ll keep nominating SBY," said Angelina Sondakh, member of the Democrat Party faction. The communication between Yudhoyono

as chairman of the Board of Patrons and all leadership elements of the Democrat Party occurred during the National Leadership Meeting in January 2007. Yudhoyono presented a strategy to make the party, which is now chaired by his brother-in-law Hadi Utomo, win the 2009 general elections. The Democrat Party asked Yudhoyono to present facts and realities achieved by his administration.¹⁰

THE UNITED DEVELOPMENT PARTY (PPP)

Since being elected during the PPP Conference in February 2007, PPP Chairman Suryadarma Ali has been keeping to conduct consolidation. After being able to maintain itself as the top five political parties in the 1999 and 2004 general elections, PPP should make fundamental changes. Those two elections can be called as the survival stage for PPP after passing through the fighting stage during the New Order general elections. During the reform era, PPP is seen bobbing up and down with the values of struggle. One of the examples is when it rejected a female president in the 1999 general elections, but was willing to nominate Hamzah Haz as vice president, who finally grabbed the number-two position, after MPR named Megawati Soekarnoputri president.

The change in its political stance can be understood due to the influence

⁸ See <http://www.demokrat.or.id/>

⁹ "Cawapres SBY Tak Hanya Kalla," *Seputar Indonesia*, 23 September 2007.

¹⁰ "Perlu Figur Alternatif Capres," *Kompas*, 12 September 2007.

Hamzah Haz had. All interests counted on Hamzah Haz. Now, it will be the turn of PPP to leave behind the interests of the elected chairman. PPP's basic interest is only a political constituent, which has selected the party's programs and politicians at the local and national parliaments, as well regional heads during regional elections.¹¹

As minister of cooperatives and small-and-medium enterprises, Suryadarma Ali is surely responsible to make the United Indonesia Cabinet set up by Yudhoyono succeed. The position, however, puts the party in a dilemma regarding the political base of PPP itself, which has started to shift from the old generation dominated by traditional Muslim figures to more professional ones. For once having a stable relationship with PDI-Perjuangan when then PPP Chairman Hamzah Haz was vice president, PPP also continues to make political maneuvers.

In the latest development, Suryadarma Ali and Lukman Hakim Saefuddin, chairman of the PPP faction at DPR, paid a visit to Megawati Soekarnoputri; and they were welcomed by Taufik Kiemas, Pramono Anung and other PDI-Perjuangan executives. Although Suryadarma Ali denied that the visit was related to the 2009 general elections¹², still it was politically interpreted as the invitation to start a cooperation. Moreover, Bachtiar

Chamsyah, chairman of PPP's Party Advisory Board and minister of social affairs of the United Indonesia Cabinet, was invited by PDI-Perjuangan in the PDI-Perjuangan National Coordinating Meeting in Kemayoran, Jakarta.

THE NATIONAL AWAKENING PARTY (PKB)

In fact, the power of PKB still counts on the charisma of its Chairman of the Board of Patrons, Abdurrahman Wahid, the former president of Republic of Indonesia from 1999 to 2001. However, his health gets weakened by his aging age and bad sight. It can be said that Gus Dur's political power relies heavily on the actors around him, particularly his relatives. However, the physical defects do not reduce Gus Dur's political sharpness and style, which is unique, inclusive and pluralist.

Starting from the replacement of Saefullah Jusuf from his position as state minister for the development of less-developed regions to Lukman Edy, secretary general of the Central Executive Board of PKB, some changes occurred in PKB. Lukman Edy was replaced by Yenny Wahid as the new secretary general of the Central Executive Board of PKB. Yenny is the daughter of Gus Dur. For the reason, Yenny resigned from her position as special staff of President Yudhoyono.¹³

¹¹ Indra J Piliang, "Muktamar PPP dan Rumah Lama," *Jurnal Nasional*, 31 January 2007.

¹² "PPP Kembali Tegaskan soal Silaturahmi," *Sinar Harapan*, 22 September 2007.

¹³ Yenny's position was replaced by Djali Jusuf, former Iskandar Muda Regional Military commander and former candidate of Aceh governor. Djali Jusuf was also known as a member of the Yudhoyono winning team during the 2004 general elections.

But later, the changes were only the beginning of a series of dismissals against the executives of PKB and DKN Garda Bangsa, a youth organization under PKB. Two deputies to the secretary general of the Central Executive Board of PKB, namely Eman Hermawan and Hanif Dhakiri, were replaced. Furthermore, they were fired from their positions as chairman and deputy chairman of DKN Garda Bangsa.

Several executives at the provincial, regency and mayoralty levels were also replaced. Some PKB functionaries holding positions at DPR and the Regional Legislative Councils were recalled as well through the mechanisms of inter-period replacement (PAW). Regarding the series of replacements, Hanif Dhakiri made criticisms by writing an article titled "Islam dan Wajah Ganda PKB" (Islam and PKB's Hypocrisy) on *Seputar Indonesia* daily (September 18, 2007). For Hanif, PKB has united three criteria to enable it moving suitably in the national and regional political current. Firstly, PKB holds a strong legitimacy of Islamic politics because its constituent base is a moderate Muslim community (NU). Secondly, PKB's ideological position and political articulation has historically and factually create a synergy between Islamic dimension and Indonesianization (nationalist). Thirdly, PKB is a political party and therefore, it can play a role in the representative political stage. Most of other political forces—either parties or non-parties—only represent one of two of the criteria.¹⁴

¹⁴ See another version on <http://hanifdhakiri.blogspot.com/>.

THE NATIONAL MANDATE PARTY (PAN)

During the PAN National Working Meeting in Palembang, an important political decision was made, namely the reaffirmation that PAN is a free and critical party regarding the Yudhoyono-Kalla administration. As said by Abd Rohim Ghazali, deputy secretary general of the PAN Central Executive Board for the 1998–2005 period, the party is identical to elite intellectuals. According to Rohim, in efforts to develop concepts of national development for the future, PAN probably has something different because its activists and executives consist of academicians with master and doctorate degrees and even some are professors. "However, to develop a party, intellectualism, moreover elite, is not influential, or even less beneficial because it can keep a distance between PAN and the 'ordinary people.' Those who feel that they are 'not special', mediocre who are not so smart, or those who think they are less intellectual, do not feel well with PAN, while actually, they are the majority of the Indonesian people," wrote Rohim.¹⁵

However, the idea to make PAN as a party of ordinary people looks going nowhere, particularly by the flamboyant figure of Chairman of the PAN Central Executive Board Soetrisno Bachir. When being elected during a congress in Semarang in 2005, Soetrisno was expected to be the bridge of political extremity, which was ongoing and counts on PAN's

¹⁵ Abd Rohim Ghazali, "Mempertegas Identitas PAN," *Seputar Indonesia*, 2 June 2007.

progressive political figures, namely Moeslim Abdurrahman (humanist figure and Muhammadiyah intellectual), Didik J. Rachbini (economist, politician and professional), Samuel Koto (activist, politician and philosopher), Fuad Bawazier (former bureaucrat and businessman), and Afni Achmad (activist, politician and Muhammadiyah figure). Later, beside Didik J. Rachbini (economist, politician and professional), the influence of other figures faded away, except Afni Achmad's greetings in banners across Jakarta during special moments like Eid al-Fitr. Fuad and Samuel even established the People's Inner Self Party (Hanura), Moeslim joined in the advocacy process of "dropping the mandate" of the Susilo Bambang Yudhoyono-Jusuf Kalla regime, while Didik and Afni often play roles as PAN prime legislators.

On the other side, the ambitious results of the PAN National Working Meeting, one of them was 100% increase of votes, are the characteristics of the present political parties. Not only PAN made such kind of statement, but also the Prosperous Justice Party. Unfortunately, PAN unlikely socializes the results of the meeting to the public. The news spotlight focuses more on Bachir as an individual than the future direction of PAN, particularly ahead of the 2009 general elections. While the Democrat Party has begun to work on a plan to seek a vice presidential candidate as Yudhoyono's running mate, PAN has apparently not been interested in discussing that matter.

But actually the case is that besides starting to separate the image of PAN

from Amien Rais, what is called as PAN's high politics can still be done regarding the position of president and vice president for the 2009-2014 period. Amien can carry out this job. But it will be very wrong if Amien becomes one of the candidates and campaigns himself. Suspicions that the Freeport issue was used to lift Amien's popularity prior to the 2009 general elections have no strong reasons, although the Freeport issue raised his name when he still joined the Indonesian Muslim Intellectuals' Association. Amien clearly can not make the historical clock back up.¹⁶

Surely, the stance taken by PAN during the National Working Meeting in Palembang could not be separated from the political circumstances. First, PAN was apparently disappointed with the results of the cabinet reshuffle announced by Yudhoyono on 7 May 2007. Hatta Rajasa, PAN's important figure, was not maintained in the cabinet as transportation minister as frequently stressed by Soetrisno, but was put in the position as state secretary based on Hatta's own efforts. Second, Soetrisno is no longer able to show his closeness to President Yudhoyono, like what he did in 2006 when announcing that there would be a cabinet reshuffle in 2007. The lack of communication was also seen by a 12-minute meeting between Yudhoyono and Amien Rais, facilitated by

¹⁶ See Indra J. Piliang, "Soetrisno Bachir, Artis dan Politik," in Zaim Uchrowi, ed., *Solusi Bersama Soetrisno Bachir* (Jakarta: The Indonesian Institute, 2007).

Hatta Rajasa on 27 May 2007.¹⁷ The meeting ended accusations and allegations made to each other between Yudhoyono and Amien over the fund received by former Minister of Sea and Fisheries Rochmin Dahuri for financing the campaigns of the 2004 general elections. Third, the total supports of PAN to the Yudhoyono– Kalla administration in the parliament are not followed by a bigger portion of power.

For the 2009 general elections, PAN has tried to mention several internal names as its presidential candidates, namely Totok Daryanto (Deputy Chairman of the PAN Central Executive Board), Didik J Rachbini (Deputy Chairman of the PAN Central Executive Board) and Zulkifli Nurdin (Jambi Governor). Moreover, Soetrisno also frequently mentions the names of Muhammadiyah Chairman Din Syamsuddin, Jakarta Governor Sutiyoso and Yogyakarta Governor Sri Sultan Hamengkubuwono X. Soetrisno, however, also held meetings with PKB's Head of the Board of Patrons Abdurrahman Wahid, as well as PPP functionaries. But it shows that Soetrisno is no longer able to hide the fact over his lack of communication with President Yudhoyono. In the case of an interpelation over the supports of the government of the Republic of Indonesia as a non-permanent member of the United Nations Security Council on Resolution 1747, Abdillah Thoha, a PAN legislator, expressed the party's strong stance. In

general, PAN apparently still seeks for new political opportunities.

THE JUSTICE-WELFARE PARTY (PKS)

As a political party whose votes and supports drastically increase, the Justice-Welfare Party (*Partai Keadilan Sejahtera/ PKS*) apparently gets more confident. PKS has even put a target of gaining 20% of votes in the 2009 legislative elections. Challenging other political parties in regional elections also shows their self-confidence. In their last action during the Jakarta regional elections, the pair of candidates from PKS challenged a coalition of 20 political parties. Despite its loss, PKS managed to show up its influence by gaining more than 40% of votes for the pair of Adang Daradjatun-Dani Anwar.

Thus, Adang cannot be regarded as a figure who climbed the shoulders and head of PKS, but with his own ways has brought pockets of votes from the outside of PKS traditional stronghold to support the PKS pair. Adang's cosmopolitan attitude, which has been seen by some of being an obstacle to unite with PKS's devout-Muslim style, has in fact brought double benefits for PKS. The cosmopolitanism does not need to change someone to be a secularist. Religiosity can also stand side by side with cosmopolitanism well.

Also by this way, PKS can claim itself as one or the only modern party in Indonesia. A number of maneuvers during the campaigns, such as doing attacking campaigns and undoubtedly expressing its ar-

¹⁷ "Episode 12 Menit Amien-Yudhoyono," *Media Indonesia editorial*, 29 May 2007.

guments in questioning about its unregistered supporters, has changed the party from its polite attitude of a devout Muslim to be Pitung who is good in martial arts. The sectarian issue, which was tried to be introduced by PKS, including by saying that Jakarta will be changed into a city of devout Muslims with its Islamic sharia law, was unsuccessful to keep a distance between the voters and Adang-Dani. PKS was cleverly able to grab voters among Jakarta residents who have declared themselves to be traditional voters of Islamic parties since the 1955 general elections to New Order's ones.¹⁸

Like PAN, PKS also has a dilemma. On one side, PKS's critical stance to the Yudhoyono-Kalla administration has been suspected as only a lip service, particularly because of PKS's position that maintains the positions of Minister of Agriculture Anton Apriantono, Minister of People's Housing Yusuf Ansyari and Minister of Youths and Sports Adhyaksa Dault. The three are PKS cadres. Unlike PDI-Perjuangan, which has openly expressed themselves as an opposition party, PKS instead shows it by conducting political fighting militantly and alone in a number of regional elections, such as in the cities of Medan, Pekanbaru and Jakarta. The capabilities of PKS in mobilizing mass and its professional management have contributed to the power of supports in every regional election.

17 POLITICAL PARTIES

In another development, 17 other political parties that did not pass the electoral threshold (ET) have filed a lawsuit at the Constitutional Court over the contradiction between ET rules stipulated in the Law No. 12/2003 on the General Elections of DPR, DPD (the Regional Representatives Council) and the 1945 Constitution. In this case, however, political parties do not easily coordinate because each political party has its own interests. The active one is only the Regional United Party. Some political parties have even decided to change their names and make other changes as required to participate in the 2009 general elections.

Of the 17 political parties, the Crescent-Star Party has been preparing the Star-Crescent Party for the replacement. The Welfare-Peace Party has not showed any signs to do the same although it has several seats at DPR. The rules on ET complicate the movement of political parties that did not pass it, so it potentially kills the democratic and political life. Political parties that did not pass ET must prepare at least two strategies.

First, for the existence of the political parties—for those that gain seats at the local and national parliaments—old parties shall be maintained until their term of office in parliament ends. It is impossible that for the sake of the 2009 general elections, all political parties that did not pass ET have to immediately change their names between 2004 and 2009, considering that they represent political parties voted by the people during the 2004 general elections.

¹⁸ Indra J. Piliang, "Dua Pemenang Jakarta," *Seputar Indonesia*, 9 August 2007.

Second is by registering new political parties or merging with other political parties to run for the 2009 general elections. There will be two offices of political parties, with the same personnel, like what the Crescent-Star Party and the Star-Crescent Party have been doing. The concentration of those parties, however, will be divided and will dwarf them in the future.

Another reason, which is also the most important one, is that legislative and executive members of the concerned parties will no longer be able to claim their success in carrying out their working programs as they promised in the 2004 general elections. The people also suffer losses because they cannot demand for reward and punishment any longer even to and against the same persons, as their supporting political party is different. The ET really inflicts losses upon the people, while a general election is a stage of evaluation to the achievement of legislative and executive members who come or are supported by a political party. A legislative or executive member does not represent him or herself and therefore, the position he or she holds is also called a political, not state one. Besides following the *trias politica* system, namely the distribution of power between legislative, judicative and executive to ensure an inter-institution monitoring process, the people's supervision is also important.¹⁹

The struggle of the 17 political parties and other rules, included in the package of the draft law on politics that gets more

taking side with major political parties, will apparently be the beginning of a process to simplify the party system. The simplification is made more within the framework of compatibility between the multi-party system and the presidential system. Even, the Golkar Party and PDI-Perjuangan tend to back heavier rules, namely by imposing parliamentary threshold that only political parties that succeed in gaining membership percentages in the parliament can send their representatives.

ACTORS OF THE 2009 PRESIDENTIAL ELECTION

Among the names circulating in the public, it has been very clear that the forthcoming 2009 presidential and vice presidential election will be participated by several names, which have been popularly known by the public. The names include First, Susilo Bambang Yudhoyono. Second, Megawati Soekarnoputri. Third, Jusuf Kalla. Fourth, Abdurrahman Wahid. Fifth, Wiranto, Sutiyoso, Sultan Hamengkubuwono X, Din Syamsuddin, Jimly Asshiddiqie, Agung Laksono, Surya Paloh, Aburizal Bakrie, etc.

Each name surely depends very much on the percentage of supports required by the Law on Presidential and Vice Presidential Election. If the percentage is still 15% at minimum of the seats or votes gained during the legislative elections, there will be five to six pairs of presidential and vice presidential candidates at maximum who can be nominated by political parties or coalitions of political parties. Meanwhile, if the percentage is

¹⁹ Indra J. Piliang, "Partai Tanpa ET," *Suara Pembaruan*, 20 September 2007.

increased to 20%, the maximum number of pairs who are nominated is only three to four pairs of candidates.

Because the president and vice president need strong supports from the parliament, it is expected that political coalitions will be built. The biggest chance of the coalitions will happen with the scheme as follows: First is the coalition between PDI-Perjuangan and the Golkar Party. The signs have been seen from intensive communications conducted by the Golkar Party and PDI-Perjuangan elites, either through meetings in Medan and Palembang or by voicing one perception during the deliberation of laws on politics. The signs have also been strengthened by a number of coalitions during regional elections either in Jakarta, Medan, Pekanbaru, Banten or other places.²⁰ The important figure in this coalition is Megawati Soekarnoputri.

Second is the coalition between the Democrat Party and smaller parties as it did during the 2004 presidential election. The coalition will be possible with an assumption that Yudhoyono's popularity can still be maintained. Yudhoyono gets more difficulties to gain supports from other political parties. The chance of a coalition left is only with PKS, but it can be that other political parties, particularly PDI-Perjuangan, also want such kind of a coalition. Political extremity will be

formed, particularly in its relation to political ideology, which is based on nationalism and secularism.

Third is the coalition between the Golkar Party and other parties, including PAN and PPP. Although this kind of coalition has never been thought before, the Golkar Party has been regarded of having enough experiences in sharing roles and power with other parties. Pragmatism among the current political leaders, and particularly the increasing political hostilities between Megawati and Yudhoyono, will cause the third power like the Central Axis during the 1999 presidential election to rise. The important figure in this coalition is Jusuf Kalla, but those who will likely be active are Suryadharma Ali and Soetrisno Bachir.

Thus, most probably, the 2009 presidential election will only present three pairs of presidential and vice presidential candidates. The figures who will be the key players are Yudhoyono, Megawati and Jusuf Kalla. Meanwhile, other figures have almost similar chances to be their running mates, including Din Syamsuddin, Jimly Asshiddiqie and Sutiyoso. If there is a chance for compromise, the name of Sri Sultan Hamengkubuwono X can be an alternative figure, while Wiranto will depend very much on the achievement made by the Hanura Party set up prior to the 2009 general elections.

²⁰ See the article box titled 'Dulu Seteru, Sekarang Sekutu' in "Kalla Bantah Tinggalkan Yudhoyono," *Koran Tempo*, 22 June 2007.

REVIEW OF ECONOMIC DEVELOPMENT

Strong Growth of Economy, but with Nose-Diving Investment

Pratiwi Kartika

INDONESIA'S economy is in the era of stability and even relatively strong growth trajectory. The rise of people's concern to the probable second economic crisis, the soaring prices of some staple food, and continuously waning investment have recently remained the major economic issues. In general, however, these do not affect the economy considerably.

Referring to the country's economic growth, the newly announced GDP growth data indicate that the economy grew at 6.3% in the second quarter of 2007, faster than the first quarter which grew at 6%. This expansion was driven by export as prices of Indonesia's export products were mounting. Meanwhile, inflation was low due to rice harvest and financial market was booming because of massive capital inflows. With regard to trade, strong global demand improved the country's international trade, exhibiting a 9.6% export growth and a 15.8% import growth. As for the fiscal issue, larger proportions of next year government budget are given to personnel expendi-

ture, capital expenditure, and social assistance. This results in a fiscal deficit of 1.7% of GDP.

Other issues arising in the second quarter of this year are the announcement of negative investment list which consists of sectors closed and partially opened for investment; the national program to convert the use of kerosene to liquid petroleum gas (LPG); and, the ban of Indonesian airlines to provide services to European Union.

ECONOMIC GROWTH

The economy continued to strut along its relatively high growth path, from 6% in Q1 to 6.3% in Q2-2007. External factors, such as favorable regional economic condition and high commodity prices were behind the relatively strong growth in the second quarter of 2007. However, the vibrant macro economy has not trickled down into the domestic economy, namely investment and manufacturing industries.

Expenditure Account

The growth of economy at 6.3% in the second quarter of 2007 compared to the same period last year shows an improved condition relative to the first quarter. This also indicates that economy was still on the right track as the government sets a target of 6% +/- 1 GDP growth this year. Another reason is that economy on the second quarter is not usually at the peak of its trend during the year. Therefore, the 6.3% y.o.y growth and 2.4% quarterly growth are all good signs of target achievement.

Nevertheless, the economy has not sufficiently had strong foundation for the country's long-term development. Investment has not been maximized as the backbone of the economy. The growth was mainly sourced from export as its greatest contributor, consumption and investment as the second and third greatest contributors (Table 1). Exports on goods and services grew by 9.8%, suggesting an upward trend of its growth in the last three quarters. Strong world demand and rising commodity prices may explain this trend.

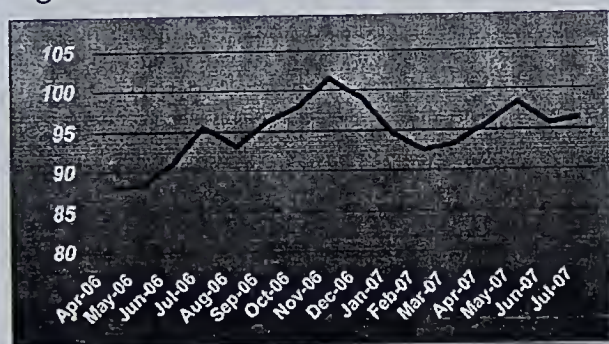
Table 1. GDP Growth by Production, Q2-2006 – Q2-2007

	2006 Q2	Q3	Q4	2007 Q1	Q2
GDP Growth					
Private Consumption	3.0	3.0	3.8	4.7	4.7
<i>of which food</i>	1.8	2.2	2.9	3.8	3.9
<i>of which non-food</i>	4.1	3.7	4.5	5.4	5.4
Government Consumption	28.8	1.7	2.2	3.7	3.8
Gross Domestic Fixed Capital Formation	1.1	1.3	8.2	7.7	6.9
Change in Stock	-43.7	-24.6	-88.6	27.1	-28.1
Exports on Goods & Services	11.3	8.2	6.1	8.9	9.8
Imports on Goods & Services	7.5	10.1	9.7	8.4	7.2
GDP	5.0	5.9	6.1	6.0	6.3
% Contribution to Growth					
Private Consumption	35.8	29.9	37.3	45.8	43.7
<i>of which food</i>	10.2	10.3	13.6	17.8	17.2
<i>of which non-food</i>	25.6	19.6	23.7	28.0	26.4
Government Consumption	38.3	2.3	3.6	4.2	4.9
Gross Domestic Fixed Capital Formation	5.0	5.0	29.7	27.6	23.9
Change in Stock	-19.8	-7.3	18.7	2.4	-5.4
Exports on Goods & Services	99.7	63.5	48.1	68.9	72.3
Imports on Goods & Services	55.2	63.3	57.2	49.7	43.1
GDP	100	100	100	100	100

Source: CEIC Asia Database

Households spending expenditure on consumption was at the constant growth in the first semester of this year. During the past one year its contribution to GDP growth had not changed significantly although the tendency moved in an upward trend. The relatively stable with ascending direction of consumer confidence index confirms this (Figure 1). The slightly higher imported consumer goods from quarter to quarter also support this (Table 2).

Figure 1. Consumer Confidence Index



Source: CEIC Asia Database

As for the government budget, its consumption growth was just a little higher than the earlier period. The government intensified the personal expenditure and depreciation but retained its material expenditure growth. Nevertheless, with high revenue collection, governmental spending still could not largely stimulate the economy in this quarter.

In contrast to upward sloping export growth, physical investment, as shown by gross fixed capital formation, developed at a declining rate in the last three quarters. This might be spurred by the slow decline of SBI rate. The gradual decline of interest rate might not impact negatively to the economy but on the contrary, it creates stability in price fluctuation, and thereby in the macroeconomy. However in the following months, investment may pick up as more domestic and foreign investments approved in the first half year of 2007 rather than the end of last year (Table 3).

Table 2. Import (USD million)

	2006			2007	
	Q2	Q3	Q4	Q1	Q2
Consumer goods	1116.5	1326.4	1164.8	1519.07	1729.543
Raw materials	12164	13088.1	11766.4	11911.65	13767.7
Capital goods	2321.3	2361.7	2429.2	2162.526	2566.374

Source: CEIC Asia Database

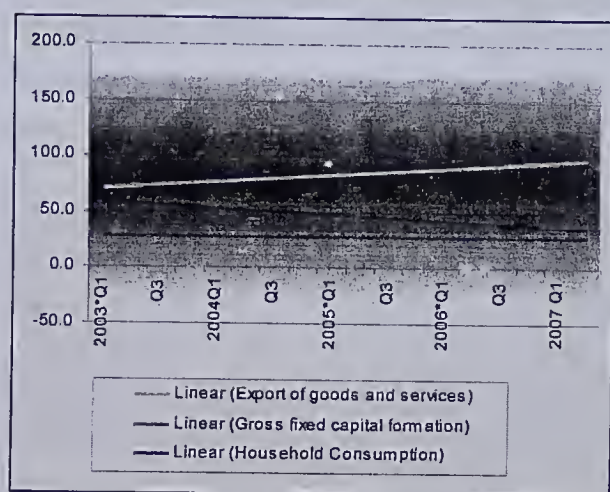
Table 3. Investment Application Approved

	2006			2007	
	Q2	Q3	Q4	Q1	Q2
Domestic (Billion Rp)	50900.9	40943	54817.9	77151.5	37992.1
Foreign (Million USD)	3608.2	4586.1	5059.7	14133.2	9852.3

Source: CEIC Asia Database

With regard to its components, the fall of investment growth was due to the fact that construction did not expand as extensive as it was before. The largest development was transportation tool but since its value was relatively little, its contribution only accounts for 2.1% to the GDP growth.

Figure 2. Trend Lines of Contribution of Private Consumption, Investment and Export to Growth (2003- Second Quarter of 2007)



Source: CEIC Asia Database

At least in the last four years, the source of growth has shifted from consumption to export while investment remained fairly stagnant. Figure 2 shows a moderately downward sloping of consumption's contribution to growth whereas the linear regression line of export's contribution is reasonably uphill. Nevertheless, investment curve did not go up although as an economy develops, the proportion of investment usually becomes larger as the consumption proportion was getting smaller. This suggests the need for

policy strategy focusing on investment in order to attain a pro-job growth.

Production Account

On the production side, agricultural sector had performed well while manufacturing grew at a moderate pace with services sectors continued their strong growth. Primary sector, notably agriculture sector strengthened its growth from -1.1% in the first quarter to 2.4% in the second quarter due to rice harvest. Meanwhile, growth in the mining sector declined back into 3.4% after it reached 6.5% in the preceding quarter (Table 4).

Manufacturing sector only grew at 5.52% although it contributed around 20-25% of GDP in the last four quarters. Therefore, reviving this sector is vital to enhance the economic growth. As for the non oil and gas manufacturing sectors, transportation equipment and machineries and paper and printing expanded at rates far higher than GDP growth while sluggish growth in textile, leather products and footwear and wood products were just behind the modest growth of the manufacturing sector.

Services kept on increasing rapidly with transportation and communication as the leading sector. Communication sector was so booming that it expanded over 20% y.o.y since Q4-2003. Electricity, gas and water supply was the second leading sector with 10.5% growth in Q2-2007. The national conversion program from kerosene to liquid petroleum gas (LPG) might be the reason for the fast expansion of this sector.

Table 4. GDP growth by production, Q2-2006 – Q2-2007

	2006 Q2	Q3	Q4	2007 Q1	Q2
GDP Growth					
1 Agriculture	1.53	2.22	1.84	-1.09	2.44
2 Mining	3.99	1.62	0.68	6.51	3.40
3 Manufacturing	3.68	5.93	5.92	5.35	5.52
4 Electricity, Gas & Water	4.47	5.75	8.12	8.50	10.54
5 Construction	8.72	9.29	10.36	9.42	7.79
6 Trade, Hotel & Restaurant	5.52	7.51	7.04	8.12	8.30
7 Transport & Communication	13.31	13.59	15.92	11.26	11.90
8 Business Services	5.29	4.72	6.82	7.87	7.69
9 Services	6.12	6.85	6.04	6.82	7.09
GDP	4.96	5.87	6.11	5.97	6.28
% Contribution to growth					
1 Agriculture	4.64	5.86	3.83	-2.73	5.68
2 Mining	7.41	2.57	1.11	9.91	4.94
3 Manufacturing	20.80	27.90	27.52	24.87	24.29
4 Electricity, Gas & Water	0.60	0.64	0.89	0.94	1.11
5 Construction	10.29	9.28	10.35	9.42	7.50
6 Trade, Hotel & Restaurant	18.64	21.38	19.64	22.56	22.21
7 Transport & Communication	16.55	14.47	16.93	12.24	12.60
8 Business Services	9.81	7.37	10.46	12.18	11.27
9 Services	11.27	10.53	9.27	10.60	10.41
GDP	100.0	100.0	100.0	100.0	100.0

Source: CEIC Asia Database

Prospects

The resumption of Indonesia's strong growth path hinges on its ability to increase investment. The signing of Economic Partnership Agreement between Indonesia and Japan on 20 August 2007 is expected to boost Indonesia's economy in the near future, first in export then followed by investment and workers' remittances. However, the collapse of global financial market in Q3-2007 having

affected Indonesia's stock prices and exchange rate would be for the resistant factor to the soaring economic growth. As a result, the growth forecast for 2007 is estimated to be 6-6.5%.

MONETARY DEVELOPMENT

Prices rose lower than expected in this quarter especially when April witnessed a deflation. This brought SBI rate downward to 8.5% with the aim to fuel

the economy expansion. This period was also dominated by the strengthening of Rupiah and stock prices. The significant strengthening occurred as massive funds were invested in the local market recently.

Low Inflation

Flowing from the first quarter, second quarter of 2007 also experienced low inflation because of the cheap price of rice. The country still enjoyed its harvest time during this quarter. Therefore, the figures show a deflation of 0.16% in April and slightly higher inflations of 0.10% in May and 0.23% in June. These insignificant percentages of price increases in May and June were due to a rising price of cooking oil but stable prices of other sectors. The rising price of cooking oil seemed to annoy national economic activities but this in fact accounted for a small weight only

in the calculation of inflation. As a result, the annual inflations of May and June were only 6.01% and 5.77%. This led Bank Indonesia to decrease its SBI rate from 9% at the beginning of the quarter to 8.5% at the end of the quarter in order to boost the economic growth.

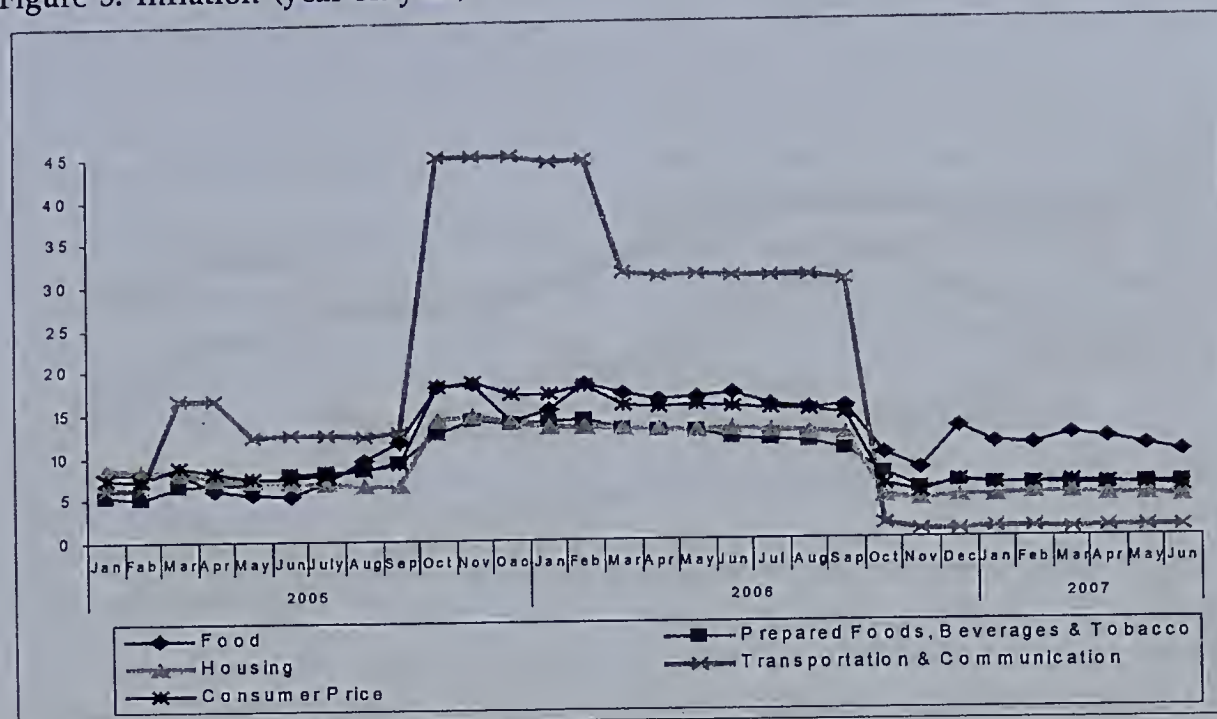
Despite showing an improved macro-economic condition, this low inflation may not sustain in the long run since harvest would not last in a long period. On the other hand, government has changed the assumption of 2007 inflation in its budget from 6.5% to 6%. However, this has not produced a strong public's expectation of stable prices which may draw prices fluctuation to their stable levels. Therefore, with a typical adjustment of prices at the beginning of academic calendar, it is predicted that inflations will be at around 6% - 6.5% in the following months.

Table 5. Contribution of Expenditure Groups to Total Inflation (Q2-2007)

	April	May	June
Food	-0.37	-0.11	0.13
Prepared Foods, Beverages & Tobacco	0.06	0.08	0.06
Housing	0.07	0.10	0.04
Clothing	0.03	0.01	-0.03
Health	0.01	0.00	0.01
Education, Recreation & Sports	0.00	0.00	0.00
Transportation & Communication	0.04	0.02	0.02
TOTAL	-0.16	0.10	0.23

Source: CEIC Asia Database

Figure 3. Inflation (year-on-year)



Source: CEIC Asia Database

Gradual Decrease of BI Rate

Following the low inflation, Bank Indonesia cut off the 1-month SBI rate by 25 basis-points (bps) twice in these three months. The cut off was gradually taken since May 2006 and it now reaches 8.25%, the lowest rate in the last two years. The reduction was meant to stimulate the business activity. However, the Central Bank seemed to be very cautious in reducing the rate with the purpose of controlling inflation. Therefore, the real BI rate went up slightly from 2.48% in March to 2.7% in April.

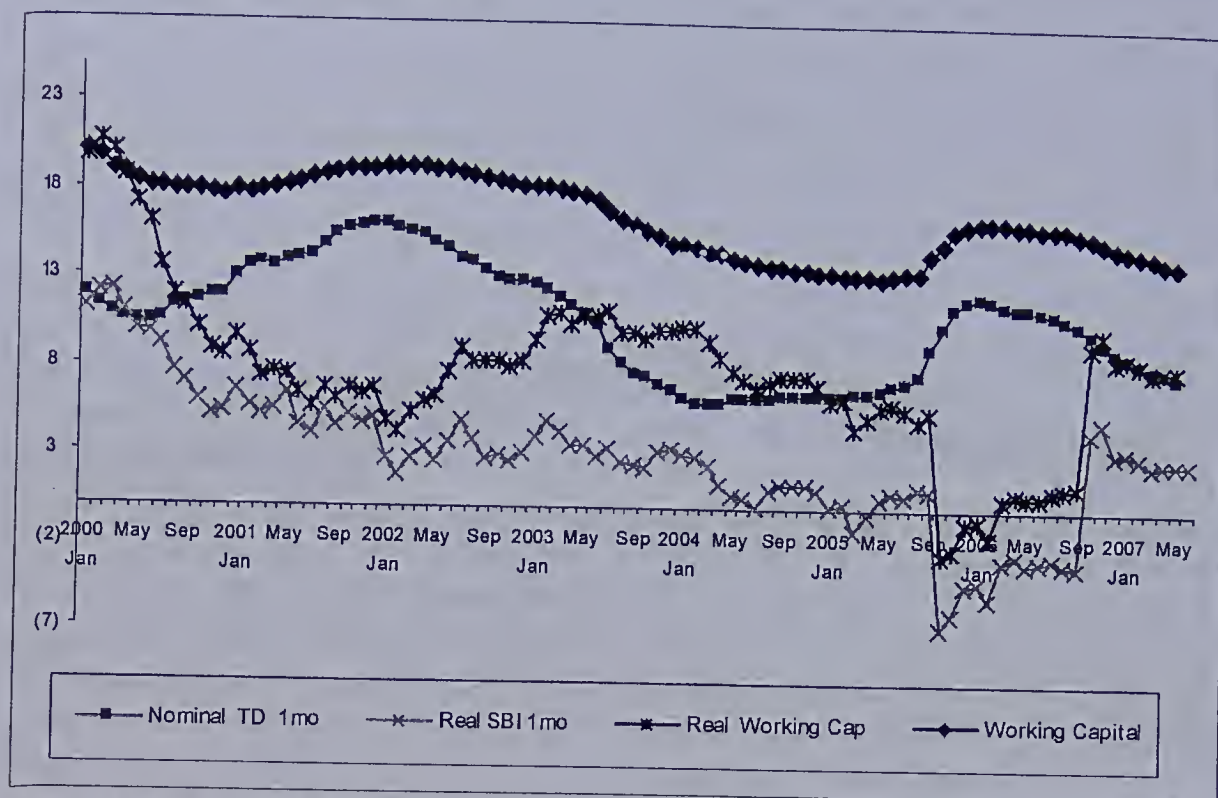
Meanwhile, business environment was more favorable in the second quarter. The decline in BI rate as the benchmark interest rate was followed by a 52-bps decline in working capital lending rate from 14.70% in the first quarter to

averagely 14.18% in April and May. In addition, banks obtained larger profit from the wider gap between lending and deposit rate since one-month timed deposit fell by 64 bps from 8.40%, higher than the decrease in lending rate. Nevertheless, the wider spread implied a higher domestic risk.

Moderate Credit Growth

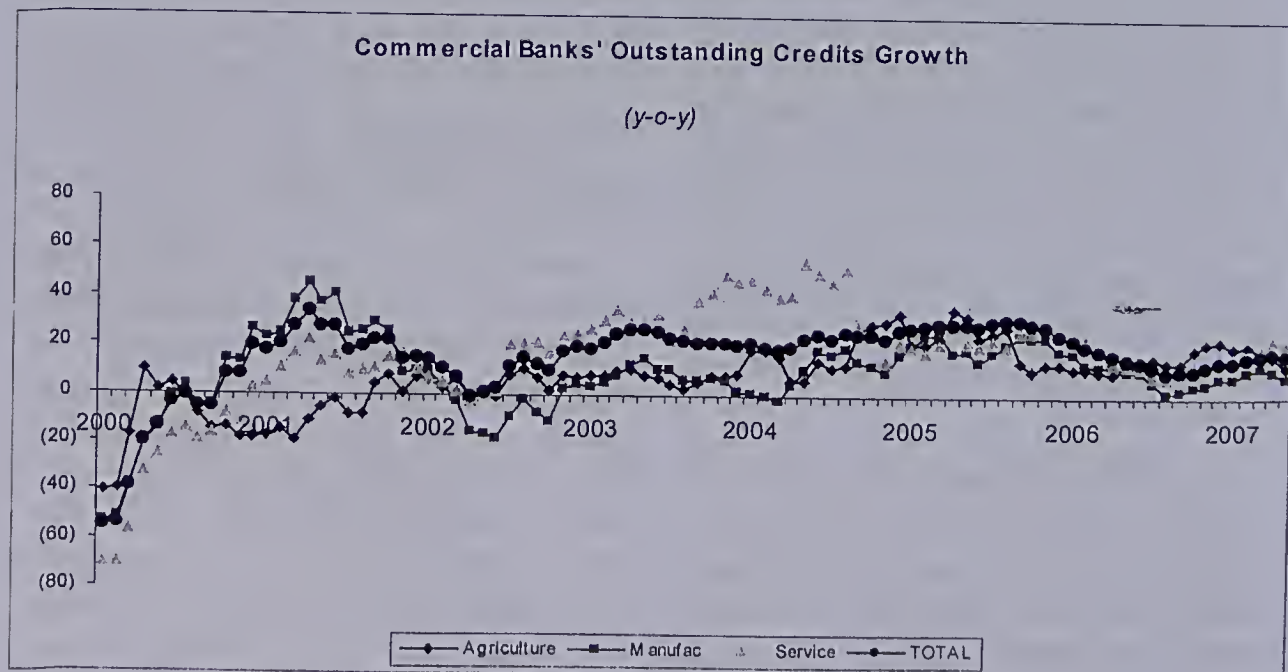
Since the third quarter of 2006 annual credit growth has risen moderately, with a growth of around 17% in April and May. Similar to last quarters, mining sector was the main contributor of the total credit growth. Other sectors with fast-growing credit were trade and services which grew for more than 20% per month. However, this credit expansion was not as rapid as it was in 2005 when it expanded on average 28.7% monthly.

Figure 4. Various Interest Rates



Source: CEIC Asia Database

Figure 5. Commercial Banks' Outstanding Credit Growth



Source: CEIC Asia Database

The possible reason was that most of third-party funds were put in the form of SBI (Certificate of Bank of Indonesia). This may happen as banks were still worried about the domestic business risk.

Increased Rate of IDR and Stock Prices

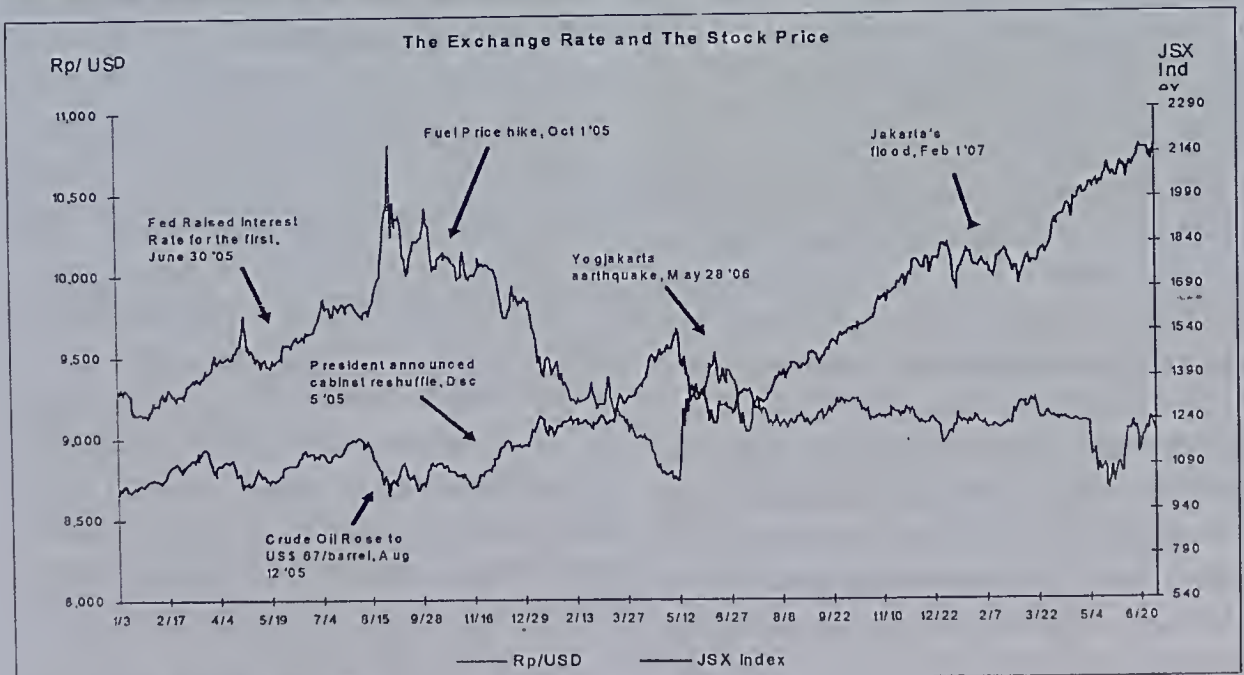
In this quarter, both rupiah against US dollar and JSX index strengthened considerably. The exchange rate peaked at Rp 8672/US\$ on 23 May with Rp 9120/US\$ at its lowest level at the start of the quarter. As for the JSX index, it hovered around 1849-2161 while on July it continued bullish and hit 2300.

The movements of rupiah and stock prices—which relate to each other—were mainly driven by huge funds inflow. The capital inflow took place as investors' expectation of the country's economy had

improved. Three indicators of an improved expectation are a deflation instead of a high inflation in April, well-performed corporate financial statements, and trade surplus which accumulated foreign reserves. Furthermore, the regional money market was booming at that time. Moreover, the external factors supported the domestic market: depreciation of US\$ against yen and the rising prices of mining commodities and CPO.

This condition indicated both an enhanced macro economy as well as a scare of another economic crisis. The short term investment reinforced the scare as agents invested through carry trade. Consequently, rupiah's market value was also shaped by public's wait-and-see action to government's precautionary policies.

Figure 6. The Exchange Rate and The Stock Price 2005 - June 2007



Source: CEIC Asia Database

Prospects

Basically, the economy is moving on the right track. Investors' interest in Indonesia and low inflation were the signs of a good macro economy. However, one cannot conclude that the country has achieved a sound economic foundation for the long-term growth. Furthermore, the signs seem unconvincing enough for the forming of public's expectation of even better economy in the future. Therefore, it is expected that inflation will be between 6%-6.5%.

Meanwhile, the exchange rate, which used to be formed by public's expectation, has adjusted towards the value where it reflects the economic fundamental. Since this adjustment still takes place, it is therefore projected that the exchange rate will be around Rp 9100/US\$-Rp 9500/US\$.

BALANCE OF PAYMENT

Exports

In Q2-2007, exports reached US\$ 28.04 billion, a strong growth of 9.6% relative to its previous quarter. The year-on-year figure also shows 14.6% growth compared to 13.9% in the previous quarter. This year export growth was mainly driven by animal/vegetable fats and oils and electrical machinery and sound recorders. Most export demand came from Indonesia's main export destination countries such as Japan, USA and Singapore with total export of US\$ 3.84 billion, US\$ 2.73 billion and US\$ 2.14 billion respectively. These contributed 38% of total export whereas demand from European Union took part around 14%.

Nevertheless, it appears that this export performance gives lack of support to the government's target of 20% export growth this year. The reason is that the rising export value in May and June was mostly due to a strong global demand. Furthermore, the oil and gas export growth was spurred by the increase in world oil price. Soaring of CPO price may also explain the strong export growth in this quarter since Indonesia is one of the world's leading CPO's exporter.

Imports

In Q2-2007 import grew faster than export as import quarterly growth is similar to its year-on-year figure which is about 15.8%. For the 1st semester 2007, although raw materials import accounted for 76% of total import, its growth was only 15% compared to 44% growth of consumption goods import. This may suggest a somewhat weak industrial development and a loss of value added in the country's economy.

FISCAL POLICY

As already noted, government consumption was not the main driver of the GDP growth, with a 4.8% year-on-year increase in the Q2-2007. However, this figure should be noted cautiously as government in the corresponding quarter of 2006 had a large consumption growth (Table 1). For the proposed budget of 2008, the government seems expanding its fiscal policy as larger fiscal deficit is being proposed.

The assumptions underlying the proposed budget of 2008 are much more op-

timistic than those of the revision of 2007 budget (Table 6). The assumed growth for 2008 budget is 6.8%, much higher than 6.3%, showing an excessively optimistic expectation given the investment bottleneck. Moreover, the world oil price which is set at US\$60 is unrealistic because the current price is approximately US\$70. Nevertheless, the assumed inflation rate and SBI rate at 6% and 7.5% respectively are realistic since the latest inflation rates were also about 6% and SBI rate is now being reduced gradually through time.

The government sets higher revenue and expenditure for next year budget which results in a somewhat larger fiscal deficit. Under the proposed budget of 2008, revenues are expected to decline slightly from 18% to 17.7% of GDP due to a decrease in the non-tax revenue despite a targeted increase of 0.7% in tax collections. The targeted tax-to-GDP ratio of 13.6% (compared with 12.9%) is to back the government's social service although the target should be supported by an efficient tax system. Expenditures are projected to increase to Rp 836 trillion, from Rp 746 trillion under the 2007 budget revision. The increase in nominal value is

estimated to be driven largely by central government expenditure. Transfers to regions are expected to decrease by 0.3 percentage points next year. Under the proposed 2008 budget, the proportion of subsidy in the central government expenditure is lower than that of capital expenditure and just about that of interest payment whereas under the 2007 budget revision, the share of subsidy is the largest among the three. This may demonstrate an improved government budget as long as not much change is carried out during the implementation. In addition, the ratio of tax to expenditure is estimated to increase from 66% to 70%, indicating that tax ability to cover expenses would also be enhanced. The overall fiscal deficit is therefore set at 1.7% of GDP, higher than 1.6% of 2007 budget revision.

The higher proposed fiscal deficit implies that the government is going to apply an expansionary policy with the aim of stimulating economic growth. The government alters its priority as it changes the proportion of some key items to central government expenditure. Personnel expenditure is expected to increase from 20.2% under the 2007 budget revision to

Table 6. Key Assumptions of the State Budgets

Key Assumptions	The 2007 Budget Revision	The Proposed 2008 Budget
Economic Growth (%)	6.3	6.8
Inflation (%)	6.5	6
Exchange Rate (Rp/US\$)	9100	9100
3-month SBI interest rate (%)	8	7.5
World oil price (US\$/barrel)	60	60
Oil production (million barrel/day)	0.950	1,034

Source: Ministry of Finance

23% under the proposed 2008 budget; capital expenditure is predicted to rise from 13.8% to 18%; social assistance is estimated to grow from 9.6% to 11.9%. On the other hand, subsidy is expected to decrease from 21.3% to 16.4% and interest payment is also estimated to shrink from 17.5% to 16.2% as the country's debt has diminished.

Beside its proposed 1.7% fiscal deficit, the government also sets regional budget deficit of between 0.3% and 0.5% of GDP as part of its expansionary policies. However, the realization of regional budget might not be deficit because in the last few years, regions have surplus budgets.

OTHER ISSUES

Negative Investment List Revealed

On 3 July 2007, a new list of negative investments is published through the Presidential Regulation 77/2007. The list comprises sectors partially opened for investment, closed for investment, and requirements of investment in certain sectors. This regulation is meant to increase certainty for potential investors.

Under the new law, 182 sub-sectors used to be open are now closed for foreign investments and 11 sub-sectors are more restrictive. The fields related to national interest such as health, morality, culture, environment, and security-related are the sub-sectors in this negative list. Nevertheless, 69 sub-sectors become less restrictive in this regulation while 33 sectors remain unchanged. As for the more open sub-sectors to non-national investors, those sub-sectors are banks (up to 99%), the

power sector, oil and gas industry, toll way operators, water companies, agriculture and plantation firms (95%), insurance firms (80 percent), the pharmaceutical industry (75%), health services (65%) and construction (55%). With regard to the current companies with some shares of foreign investors, the regulation still allows these firms with a requirement of unchanged shares of ownership.

Kerosene-to-LPG Conversion

Government, with the help of PT Pertamina, is conducting a program of replacing the use of kerosene with liquid petroleum gas (LPG). They provide free stove and 3-kilogram LPG tube for every low income household. The converting program is expected to be completed in 2009 and has a purpose of saving government's budget of IDR 7trillion per year when Indonesians have all opted for LPG instead of the subsidized kerosene. The problem is that the, there was a lack of 3-kilogram LPG tube supply in the market, and sometimes they even lost from the market. This makes people upset and decide to convert back to kerosene whose production unfortunately had been cut off by Pertamina. As a result, it is the public again who feel the downside from rarity of fuel in the market.

Another Possible Economic Crisis

On 11 May 2007, the Coordinating Minister of Economy Boediono, the Governor of Bank of Indonesia Burhanuddin Abdullah, and the Minister of Finance Sri Mulyani stated their readiness to overcome the possibility of another economic crisis. This statement was a response to

the warning of the possibility of second crisis from Asian Development Bank (ADB) the previous month. The reason of the warning was that a huge amount of capital inflows this year was also what preceded the 1997/98 crisis.

The Hike of Cooking-Oil Price

In the last week of April, cooking-oil price surged from Rp 6,000 to around Rp 8,000 per litre. The price has not gone down to its initial level until July. The causes of the surge in price are both supply and demand factor. On the supply side, El Nino hit palm oil plantations in Indonesia and Malaysia while on the demand side, China and India made more purchasing. Therefore, the world CPO (Crude Palm Oil) price went upward to USD 800 a ton and, in turn, brought national cooking-oil price upward.

To overcome this problem, the government implemented a 6.5% tax on export of CPO instead of a 5% tax. This action was taken in the 15th of June following the two other actions which were unsuccessful in lowering down the price. The two other actions were the so-called "market operation" and an encouragement for the domestic CPO producer to supply more to domestic market rather than to international market.

EU Banned Indonesian Airlines

On 6th of July, the European Commission banned 51 Indonesian airlines from flying to Europe in response to series of air accidents in Indonesia early this year. All Indonesian airlines and several from Russia, Ukraine, and Angola have

been banned from flying to the region due to safety concerns.

Basically, there is no significant impact of it because, currently, there is no Indonesian airline operating scheduled flights to any European destination. Garuda Indonesia stopped serving scheduled flights to Frankfurt, Germany, last year and terminated regular services to Amsterdam and Rome in 2005. Although there is no major impact on EU tourist arrivals, this condition will give a large impact to Indonesian aviation business. The most important one is the tourist trust on Indonesian airlines. Tourists will be hesitant about traveling with Indonesian airlines, domestically or internationally. In other words, tourists will place Indonesian airlines as the last options.

In response, the government and Indonesian airlines actively convince the civil aviation authorities and various countries' travel agencies of improved flight safety in Indonesia. On 2 July 2007, Indonesian Transport Minister, Jusman Djamal, signed a joint declaration with the President of the International Civil Aviation Organization (ICAO), Roberto Gonzalez that states Indonesia's commitment in improving air safety and security, and strengthening the supervisory capacity of the air transport directorate-general. The government vowed that it would ensure the directorate-general had an adequate financing and manpower and would be able to issue necessary corrective measures to meet ICAO standards. It would also conduct audits and improve transparency when investigating accidents and put better management system to air safety issues.

Energy Diversification and The Need for Renewable Substitutes

Kusnanto Anggoro

INTRODUCTION

CURRENTLY energy has become a much-talked issue, in particular among Southeast Asian academic, business and government circles, as reflected in a number of discussions, seminars, working group meetings dealing with it held for the last few months. Concerns lie in some aspects of energy security, starting from potential conflict that it may entail, the needs for diversification and conservation policy, to its possibly detrimental consequences on nuclear non-proliferation. Continuing volatility in oil prices, growing uncertainty over long-term energy supply and rising concerns over the environmental impact of fossil fuels use are paramountly of importance.

In April 2007, a NEAT Workshop discussed in Singapore diversification of energy supply in the ASEAN Plus Three countries.¹ Two month later, Conference

on the Renewable Energy: Technology, Markets and Policies in Southeast Asia Conference was held at the Bangkok International Trade and Exhibition Centre (BITEC) on 6 June 2007.² In August 2007, the energy ministers of the 10 member nations of ASEAN gathered to discuss the future of energy development in the region.³ The needs for cooperation among countries were consistently become the conclusion. It remains to be seen, however, whether such converging interest will produce an effective cooperation. Asymmetric nature of energy security between developed and developing countries, and/or between oil producing and consuming countries, at least for the foreseeable future, is very likely to put future considerations on sustainable cooperation into back burner. This article aims to survey three main

¹ NEAT Working Group on Energy Security Cooperation in East Asia ((Phase III: Energy Diversification), *Report*, Singapore, 27 April 2007.

² The Renewable Energy: Technology, Markets and Policies in Southeast Asia Conference, *Report*, 6 June 2007.

³ A Sustainable Energy Future for Southeast Asia will save money and the climate, Joint Report by Greenpeace and the European Renewable Energy Council (EREC), Greenpeace, 23 August 2007.

points of interests that at the same time show how common interests alone will not resolve the question of cooperation.

ENERGY DIVERSIFICATION

Energy diversification is conventionally defined as a move away from reliance on either one or two primary sources of energy, usually fossil fuels, to non-fossil fuels.⁴ All Southeast Asian countries, like many other regions, have paid significant interest to the issues. However, differences in the availability of alternative resources and level of economic development appear looming in the horizons. The tyranny of hydrocarbon fuels will likely to be there longer than predicted. Some success in relative terms (percentage) does not compensate for increasing energy demands.

Undoubtedly, countries have a different mix in its overall energy utilization. Most Southeast Asian countries are predominantly dependent on either one or two fossil fuels. Countries like Brunei, Cambodia, Myanmar, Singapore and Vietnam are heavily dependent on fossil fuels (almost up to 100%) while the Philippines (92%). In term of diversification, Japan and South Korea are the least dependent on fossil fuels, accounting for 84% and 85% respectively.

Given the heavy reliance on fossil fuels, the governments of all the ASEAN

countries are making concerted efforts to diversify their energy sources and alter their energy mix. From political or security perspectives, diversifying energy sources and varying the energy mix would enable countries to better withstand energy supply shocks in the short run and demand squeeze due to sudden surge in demand coupled with insufficient investment in energy infrastructure to keep up with the demand. On the economic front, a sharp and sustained rise in oil prices would make renewable sources of energy more commercially viable.

Among the ASEAN nations, the least diversified are Brunei and Singapore with an indicator of 33 and 28 in 2002, 45 and 47 respectively projected by 2030. Singapore, with its heavy reliance on oil and gas, is diversifying those two sources and exploring renewable sources of energy. Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Thailand and Vietnam have had varying success in diversifying their energy mix into fossil fuels (other than oil), hydropower and other renewable. Indonesia and Malaysia have also embarked on similar trends.

Despite its promises, the potential, challenges and problems of energy diversification for individual countries are closely related to their respective levels of economic development and resource endowment. Some countries face more challenges and problems than others do. Those problems are among others: the availability of capital, technology and trained human resources; the political costs and social inertia involved in shifting from one or two energy sources to others;

⁴ Earlier assessment on this subject can be found in William C. Ramsay, "Asian Oil: Current Trends, Outlook and Issues," Roundtable Conference on Regional Cooperation: Key to Energy Security, New Delhi, 6 January 2005

the comparatively high cost of renewable sources of energy at the present state of technology; the level of social awareness and acceptance of alternative energy resources such as nuclear power; and, last but by no mean the least, the set of government policies and incentives, and the importance of coordination among relevant ministries and agencies.

Indonesia is likely to be nearly stagnated, with the index of diversification declining from 84 to 86 in the next two decades. Thailand will be in similar board, from 78 to 83. This may suggests that energy sector will remain heavily dependent on non-renewable resources (fossil, natural) – finite, depleting, producing emission. At the same time, challenges of declining oil production, surging domestic demand and increasingly untenable fuel subsidy policy will make the government in the dire need of a balanced yet comprehensive energy policy. As part of the policy, diversification may be limited in terms of internal rather than external diversification. Balanced, efficient use of hydrocarbon resources will remain the crux of Indonesia and Thailand's energy policy.

At this point, renewable resources will not be able to substitute non-renewable resources; and the importance of such tendencies in the larger picture of energy equation in Asia Pacific is telling.⁵ One only needs to look upon how diversifi-

cation efforts in more developed economies tend to proceed. Unfortunately, large economies such as Japan and Korea appear to achieve point of saturation. It was predicted that in 2030 diversification of energy in Japan and South Korea will reach 86% and 89% respectively—far better than that in developing economies like Indonesia and Thailand.

Nevertheless, the indexes of diversification in the countries were lower than their achievement in the last two decades. Considering that in the next two decades or so Japan and South Korea, along with China, remain the most significant hydrocarbon fuels, the competition for hydrocarbon energy, especially oil and gas, will certainly on the rise. Many have already noted earlier that this tendency already created many security issues, including competition over maritime resources in the region.

CLEAN AND RENEWABLE ENERGY

One of the most important aspects of energy diversification is a political, yet moral obligation, to find some clean energy resources. The use of carbon fuels produces pollutions, and, more importantly put burden to future generations. However, such awareness does not prove to be strong impulses for countries to work harder towards diversification of energy

⁵ Relationship between energy demands and level of development has drawn strong interests among economists. Recent reemphasis on the subject should be found in, among others, Kazuhisa Koakutsu and Rie Watanabe,

Energy Security and Development Need, Asian Aspiration for Climate Regime Beyond 2012; and Philippe Benedict, "Energy and the Economy," Paper presented at OECD Forum 2006, Balancing Globalization, Paris, 22-23 May 2006

resources. Trade off between better future and shorter investment is certainly difficult to reconcile. In August 2007, the energy ministers of the 10 member nations of ASEAN discussed the future of energy development. They consistently keep their conventional wisdom to consider that coal and nuclear power plan will serve the interests.

Moral obligation to serve the interests of future generation appears short of more realistic argument. Besides, there is a lack of economic rationale for energy diversification. It is at this point a joint report by Greenpeace and the European Renewable Energy Council (EREC), released on 23 August 2007, on the eve of the Association of Southeast Asian Nation's (ASEAN) Ministers of Energy Meeting, became an alternative view to be taken into account, more than simple arguments of, for instance, climatic change.

Breaking the conventional wisdom of the past, the Report demonstrates how ASEAN economies will in fact benefit from clean energy investment. The report gives the financial rationale for Greenpeace's "Energy [R]evolution," a blueprint for how to cut global CO₂ emissions by 50% by 2050, while maintaining global economic growth. A shift in global investment towards renewable energy (including solar, wind, hydro, bio-energy, and geothermal) will save a lot of money. By incorporating fossil fuel costs into the picture, investing in renewable energy now is a better long term option. In theory, ASEAN will literally save trillions of dollars; a massive US \$180 billion a year globally, forever and at the same

time avoid the catastrophic impacts of climate change.

Potential wise, renewable energy has the potential to meet our energy needs many times over. Solar energy systems convert the energy from sunlight into electricity. Solar energy systems are silent, effective and comparatively non-polluting. Therefore, they are considered suitable for urban areas. There is enough power in the wind across the earth's six continents to supply four times the world's energy needs. Moving water contains an enormous store of natural energy, whether the water is part of a running river or waves on the ocean. The renewable energy within the world's oceans, if it could all be harnessed, would satisfy the present world demand for energy more than 5000 times.

In theory, solar industry could supply electricity to over 2 billion people globally in the next 20 years. Wind power is already the world's fastest growing renewable energy technology, on track to provide 12% of global energy by 2020. Wave power could produce two terawatts of energy each year. This is twice the world's current electricity production and is equivalent to the energy produced by 2000 large oil, gas, coal, and nuclear power stations. Geothermal power plants produce electricity about 90% of the time, compared to 65-75% for fossil fuel power plants. Small-scale hydropower is obviously an environmentally benign energy source with large growth potential.

It remains to be seen whether such message will get across policy makers. For one thing, such mathematics of supply is

misleading. Highly potential as they may be, renewable energy like wind and solar are much relevant to public services, such as park and compound lightings and/or other small-scale consumption of energy. They are likely to be massively used in industries and transport, unless a significant amount of further investment is paid for storage systems. Biomass could be potential for some transport industry, yet conversion may require a significant amount of financial resources. Hydro-power and geothermal energy are highly geographically bound; and its potential may become efficient production if there are local industries, which is somewhat unlikely in many developing economies of Southeast Asian, where industries lies in urban areas.

More importantly, abundance is never an issue of energy production. It would be difficult for government of Southeast Asian, Singapore is an exception, to divert significant amount of state's budget to public services. Giving a chance to private enterprises to develop renewable energy is not a simple task, considering its strong links to fiscal policy, such as taxation that is extremely political in some cases.⁶ Saving a lot of money in the longer run is certainly a good spirit, but may not be relevant to countries struggling for the survival of today rather than of future.

⁶ *Compendium on Energy Conservation Legislation in Countries of the Asia and Pacific Region*, United Nations, 1999.

EMERGING NUCLEAR ENERGY COUNTRIES

According to April edition of the World Nuclear Association, some Southeast Asian countries are embarking on nuclear power plants.⁷ Diversification of energy supply is certainly considerations, especially to reduce dependence on fossil fuels. So is the potential for getting clean sources of energy. Despite worries over a strong culture of negligence in some countries, the huge technological and thus financial capital do not seem to hamper some Southeast Asian countries to "go-nuclear".⁸ The objectives of anticipating an unstoppable rise of electricity supply is abound. Indonesia, Vietnam, Thailand, and Malaysia are seriously considering the development of nuclear power plants.

Indonesia has already had three research reactors, operated by the National Atomic Energy Agency (BATAN). Following earlier tentative proposals, in 1989 the government initiated a study focused on the Muria Peninsula in central Java. Plans for the initial plant on the Muria Peninsula in central Java were then deferred indefinitely early in 1997. Plans are to call tenders in 2008 for two 1000 MWe units, leading to decision in 2010 with construction starting soon after and commercial operation from 2016 & 2017. Muria units 3 & 4 will be built later, for operation from 2023.

⁷ *Emerging Nuclear Energy Countries*, Newsletter, World Nuclear Association (April 2007).

⁸ Mely Caballero-Anthony and Sofiah Jamil, *The Rush for Nuclear Energy in Southeast Asia: Promises and Pitfalls*, RSIS Commentaries, 33 July 2007.

In Vietnam, two preliminary nuclear power studies were undertaken in the early 1980s, followed by another in 1995. More recently, a national energy plan approved by Vietnam's National Assembly includes at least 2000 MWe of nuclear power capacity to be commenced by 2010. This follows a feasibility study in 2002, and establishment of nuclear cooperation agreements with Russia and South Korea, the former related principally to its 500 kW Da Lat research reactor. Hanoi announced that a 2000 MWe nuclear power plant would be on line by 2020. A feasibility study for this due to be completed in 2008 and formal approval; will then be required to open a bidding process with a view to construction start in 2011 and commissioning in 2017.

Meanwhile, Thailand has had an operating research reactor since 1977 and a larger one is under construction. According to Thai's Energy Minister's statement, Thailand needs nuclear power in its mix to avoid undue reliance on gas. Thailand's National Energy Policy Council has commissioned a feasibility study on constructing a nuclear power plant in the country. Among the options under the draft power development plan for 2007-2021 is the construction of 5000 MWe of nuclear generating capacity, starting up in 2020-21.

Malaysia has also studied a comprehensive energy policy, including consideration of nuclear power to be completed before 2010. The state-owned utility TNB is tentatively in favor of nuclear power; and according to the Malaysian Nuclear Licensing Board, plans for nuclear power

after 2020 should be brought forward and two reactors built much sooner. The Malaysian Institute for Nuclear Technology Research (MINT) has been operating a 1 MW Triga research reactor since 1982. In November 2006 MINT was renamed the Malaysian Nuclear Agency (or Nuclear Malaysia) to reflect its role in promoting the peaceful uses of atomic energy.

In all cases, nuclear power plants are to be built to supply electricity demand, which is expectedly to grow intensively in the next two decades. Most report adopts similar line of thinking, that "nuclear power should be introduced for satisfying the continuous growth in the Southeast Asian countries' electricity demand in that time and beyond". More than a half of the countries electricity demand is generated by oil and gas; and, while other renewable sources of energy such as hydropower and geothermal contribute less than 10%, increasing demands for electricity can hardly be fulfilled with fossil fuels.

Southeast Asian has already committed to a non-nuclear [weapons] zone, and there is meager possibility that any of them will go along the line of nuclear weapon program. The peaceful uses of nuclear program will nonetheless provide significant impact upon nuclear non-proliferation regimes. Going nuclear countries, especially those demand for rights to sovereign control of the nuclear fuel cycle, will certainly put increasing pressure on the international nuclear non-proliferation regime, causing it to reach a tipping point. Therefore there is no other choice for all countries but creating an

environment for investment in nuclear power, including professional regulatory regime, policies on nuclear waste management and decommissioning, and involvement with international non-proliferation and insurance arrangements.

The nuclear industry claims that nuclear energy is a clean alternative to fossil fuels. But according to some scientists it is not so. Nuclear power cannot and will not suddenly become safe and clean. It is just as radioactive and dangerous as it used to be. Nuclear power is risky at every stage of development, from mining the uranium to producing the energy to the dangers of transporting and storing radioactive waste. It is by no means a clean or safe industry. Creating nuclear power is expensive and its by-products can cause cancer. The best investment for our planet's future is clean renewable energy, such as solar and wind, combined with technologies that vastly improve energy efficiency.

CONCLUDING NOTES

Energy diversification and conservation are crucial for the future of human being. Sustainability of energy sources becoming not only the issues of moral obligation but also sustainability of a human-faced development. The option of today may become the Frankenstein of tomorrow. It is no easy task to reconcile longer-term gain to short and medium term losses. Technological progress may also bring down the costs of renewable sources of energy, thus increasing their commercial viability. The growing concerns for the

environment and global warming provide a strong impetus to search for cleaner substitutes.⁹ The effects of higher oil prices on alternative energy substitutes only plays out in a 10-year time horizon. In the short to medium term, the chief substitute for oil is an increase in the consumption of coal.

The world energy markets are inherently global, and no single country can exempt itself from the interdependencies of that market. Geographical differences in the location of supply and demand will continue to expand trade.¹⁰ Differences in resource ownership and access to capital and technology will require increasing cooperation among countries. The consuming and producing countries share a mutual interest in this expansion, and in avoiding volatility. In fact, these interdependencies generate a web of mutual interests between producers and consumers, which can provide a basis for reducing the security problem. While there is no certainty that cooperation in expanding supplies over the next several decades will succeed, there is certainty that the cost of failing to do so will be enormous.

There is no doubt that cooperation is needed. As many other issues, energy has

⁹ Robert Curtotti, Angelica Austin, Andrew Dickson and Lindsay Hogan (ABARE) and Peter Drysdale (Australian National University), "Energy Issues for the 2nd East Asia Summit", *Background Paper*, REPSF Project No. 06/2003, Final Report, November 2006.

¹⁰ Richard Giragosian, "Energy Security in East Asia", IAGS, 13 August 2004. see also, High Oil Prices: Securing the energy supply in the region, APEC E-Newsletter Vol. 7 (January 2006).

become an interdependent issues.¹¹ Lacking and/or failure to find alternative energy sources in one particular country, especially with huge potential consumption, will certainly create nightmare. Competition over resources will certainly on the rise, and could well be stepping up into security issues. In some cases, there is always possibility for diverging interests that may in the end up with more volatile security relations among countries in the region. Asymmetric character of, say Middle East as oil producer and East Asia economies as consumer alone will pose serious challenges on Southeast Asian security.

Therefore, the imperative for energy security in such vulnerable strategic regions as the Asia-Pacific is paramount for global stability and development. The priority of this challenge for the Asia-Pacific region is also no accident, as it is the world's fastest growing energy consumer, with projected demand to steadily surpass other regions for some time. However, it remains to be seen whether this troubled region will be able to forge a collective and cooperative approach in the wake of the daunting challenges and demands posed by the global "war on terrorism" and an increasingly destabilizing uni-polar world.

¹¹ "Global Risk 2007", *Global Risk Network Report*, World Economic Forum, January 2007

Competing to Secure The Straits of Malacca and Singapore

Shafiah Fifi Muhibat

INTRODUCTION

AS the world's largest archipelago, the sea is considered as vital for Indonesia, both in terms of prosperity and security. One of, if not the most, important domestic lifelines in the archipelago that overlaps with the Sea Lanes of Communications is the waterway of the Straits of Malacca and Singapore. The Straits are the vital sea lanes that bridge two oceans, serve as the shortest route between the world's most populous countries, and buttress the high level of maritime trade and shipping increased by continuing economic integration and trade. The waterway carries an annual volume of commercial traffic of more than 50,000 ships, making it the busiest waterway in the world. This translates to more than a third of global trade and two thirds of the world's liquefied natural gas trade passing through the Straits.

With such great importance, the fact that since late 1980s the area has been one of the global hot spots of pirate attacks on commercial vessels and fishing

boats is of course a grave condition. In addition to that, allegedly precarious political environments in the area result in the contention that there is imminent threat of separatist groups and terrorists to the commercial vessels, ports, and offshore energy installation. In this regard, the safety and security of the Straits of Malacca and Singapore are an international concern, and in particular the concern of the littoral states, i.e. Indonesia, Malaysia, and Singapore.

However, the reality is that the littoral states suffer from incapability to provide the maximum safety and security in the area. Especially for Indonesia, the lack of resources available to military and law enforcement agencies is the main issue. Although there has been an increase in the naval capabilities in both countries in recent years, and also there has been an increase in the multilateral efforts of the littoral states, the passage way of the Straits of Malacca and Singapore are still labelled as dangerous by most merchant ships and other vessels due to the ongoing high occurrence of piracy and other criminal acts.

The fact that the littoral states have not been able to guarantee safety for the users of the Straits led to the search for other actors that can provide safety. In the past few years, the number of private security companies offering maritime security services in Southeast Asia has increased. Their services include the more active services, such as prevention of attacks and crisis and post-attack response, and also other services, such as security planning and risk-analyzing consulting services. High value and particularly vulnerably assets cargo vessels passing through the Straits of Malacca and Singapore are the regular customers of their services.

At present, the operation of these companies in the Straits of Malacca and Singapore is somewhat unregulated. Indonesia, for example, has loudly expressed its disapproval and extreme concern to the existence and operation of these companies within its territory¹, mostly based on these following concerns: (1) problems with local forces; (2) sovereignty issues; (3) legal problems; and (4) various risks of accidents and violence. However, so far, there has been no legal action, i.e. arrests, made on companies providing these services, including those that publicly claim to be carrying out armed escorts. Indonesia's lack of resources available to military and law enforcement

agencies at sea curbs not only its capability to secure its territory, but also its capability to enforce its opposition towards the existence of private security companies providing armed services within its territorial jurisdiction.

This paper will analyze how the littoral states, which in this case are the ones inherently responsible for security within their national territories, seem to be losing out in the "competition" of providing security in the Straits of Malacca and Singapore. Indonesia will be the focus of analysis, since as the littoral state it has been more than often been indicted as the "weakest link" in terms of maritime security in the region.² This paper seeks to point out that the existence of these private companies could actually be regarded as a pressure for Indonesia to improve its capacity to be able to "compete" for the trust of the "customers" of security service in the Straits of Malacca and Singapore.

ILLEGAL ACTS IN THE MALACCA AND SINGAPORE STRAITS

The United Nations Convention of the Law of the Sea states that piracy is the illegal act on the high seas or in a place outside the jurisdiction of any state³, which implies that illegal act in waters under national jurisdiction is technically

¹ See for example "RI Will Not Allow Other Countries to Escort Ships through Its Waters," in *The Jakarta Post*, 25 August 2007; and "Indonesia Rules Out Private Armed Escorts in Malacca Strait," in *Bloomberg*, 2 May 2005, available at <http://www.bloomberg.com/apps/news?pid=10000080&sid=aRlpGcMYBSME&refer=asia>.

² See for example Catherine Zara Raymond, "Piracy in Southeast Asia: New Trends, Issues, and Responses," ISDS Working Paper No. 89, Singapore, ISDS, 2005, 18.

³ *United Nations Convention on the Law of the Sea* (UNCLOS), Article 101.

armed robbery. With such definition, the act of piracy in the traditional sense is actually quite rare at the present time, as most attacks on ships occur within the 12 mile of national territorial waters or archipelagic waters instead of on the high seas. However, in various documents the term 'piracy' is also used within a similar context with armed robbery, as the International Maritime Bureau has adopted a somewhat broader definition that considers piracy as an act of boarding any vessel with the intent to commit theft or any other crime and with the intent or capability in the furtherance of that act.⁴

Overall in Southeast Asia, acts of piracy and armed robbery at sea have occurred for decades and continue to take place. It particularly raised as a striking problem in the region, including in the area of the Straits of Malacca and Singapore, since the 1997 Asian financial crisis, as many believed that the crisis caused many people losing their jobs, more poverty, and the deterioration of financial situation, which forced people, especially in coastal areas, to use criminal activities as a way to supplement their income.⁵ In the area of the Straits, since 2000, the most common targets of armed robbery at sea have been product tankers and general cargo vessels, as these vessels are numerous in these waters and also because they are frequently engaged in local voyages

closer to the coast, thereby making them easy targets for pirates lying in wait.⁶

There had been a downward trend in the number of piracy and armed robbery since the end of 2004, which continued until the end of 2006. A total of 16 cases were reported each year for both 2005 and 2006, with 12 actual attacks occurring in each of those years.⁷ However, although the figure is not excessive, the activities have taken on new, and more dangerous, characteristics, such as the kidnapping and hijacking of vessels and their crew. Such escalation towards higher degree violence has led to the labelling of the area as a war zone⁸ and the point where the word 'terror' became increasingly invoked⁹. Although the war-risk rating has been removed last year¹⁰, it does not mean that the problems of piracy and armed robbery in the Straits of Malacca and Singapore are now past.

This concern is in fact more serious now after the report of the 2nd quarter of 2007 showed a sudden increase in number

⁶ Ibid, 13.

⁷ Joshua Ho and Jane Chan, *Report on Armed Robbery and Piracy in Southeast Asia 2006* (Singapore: RSIS, 2007), 5.

⁸ Lloyd's Market Association, "JWC Hull War, Strikes, Terrorism and Related Perils Listed Areas, 20th June 2005", available at <http://www.the-lma.com/docimages/5292.pdf>.

⁹ Graham Gerard Ong, "Ships Can Be Dangerous Too: Coupling Piracy and Maritime Terrorism in Southeast Asia's Maritime Security Framework", ISEAS Working Paper No. 1, Singapore, ISEAS, 2004, 1.

¹⁰ Lloyd's Market Association, "JWC Hull War, Strikes, Terrorism and Related Perils Listed Areas 7th August 2006", available at <http://www.the-lma.com/docimages/6736.pdf>.

⁴ ICC International Maritime Bureau, "Piracy and Armed Robbery Against Ships," Report for the Second Quarter 2007, IMB, 2007, 3.

⁵ Catherine Zara Raymond, "Piracy in Southeast Asia," 13.

of attacks, particularly in the area of the Straits of Malacca and Singapore. There were a total of 11 reported cases of piracy and armed robbery attacks along the Malacca and Singapore Straits, 10 of which were actual attacks.¹¹ Of these cases, 4 incidents of armed robbery involved actual confrontation with crewmembers, 2 of which involved the use of firearms.¹² This presents a reminder for both the littoral states and the users of the Straits that this has remained an ongoing security problem in the area. A report also suggests that as many of such attacks now involved confrontations with the perpetrators armed with knives and firearms, ship owners should perhaps start to consider the need to increase the level of security onboard.¹³

These criminal acts have enormous consequences on the safety of life at sea and international maritime navigation, particularly in the area of the Straits. The reason for this is clear. As has been mentioned at the beginning of this paper, the Straits of Malacca and Singapore gives passage to more than a third of global trade and with an annual volume of commercial traffic of more than 50,000 ships, making it the busiest waterway in the world. Ships pass the extremely narrow passage at a rate between 150 to as much as 900 daily.¹⁴ Subsequently, the disruption of the traffic along the Straits will cripple the regional and international trade.

INDONESIA'S MARITIME CAPACITY

As explained previously, most of the criminal activities of piracy and armed robbery conducted today are done within territorial waters or archipelagic waters. In this regard, they are considered to be exclusively under the principle of coastal states sovereignty and national security.

If we take the UNCLOS into account in analyzing the situation in the Straits of Malacca and Singapore, it is obvious that the security of the area is within the exclusive domain of the littoral states, i.e., Indonesia, Malaysia, and Singapore. However, as has been expressed at the beginning of this article, the capacity of the littoral states to provide maximum security in the area is often questioned.

Of particular importance in this regard is the maritime capacity of Indonesia. Indonesia is the largest archipelagic and maritime states, as more than half of the maritime zones in Southeast Asia are within Indonesian jurisdiction. Maritime security is of the country's concern in many aspects, particularly as there have been ongoing substantial problems in the law enforcement and security at sea as piracy and robberies continue to its attention, particularly in the archipelagic water in the Straits of Malacca and Singapore and in the South China Sea. As such, the Indonesian National Criminal Law puts piracy and armed robberies in Indonesian waters as serious crime, some punishable by up to 15 years imprisonment and, in some cases, life sentence.¹⁵

¹¹ Jane Chan and Joshua Ho, 2007, *Report on Armed Robbery and Piracy in Southeast Asia 2nd Quarter 2007*, Singapore, RSIS, 2007, 5.

¹² Ibid, 5.

¹³ Ibid, 7.

¹⁴ Joseph J. Brandon, "Piracy as Terrorism", in *Journal of Commerce*, USCIB, June 2003.

¹⁵ *Kitab Undang-Undang Hukum Pidana*, Articles 438, 439, 440, and 444.

The need and obligation to maintain security at sea, however, have been hindered by the lack of resources of law enforcement and the maintenance of maritime order. The Indonesian Navy admits the lack of capacity for the surveillance and investigation within the whole national jurisdictional waters, particularly in the Straits of Malacca and Singapore due to the limited availability of defence instruments, infrastructure and personnel, both in terms of quality and quantity.¹⁶ It is by 2006 equipped with 126 navy vessels with 47.62% (60 vessels) being operated,¹⁷ while ideally the Indonesian Navy requires 190 vessels by 2013¹⁸ and 274 vessels by 2024.¹⁹ In fact, it has been argued that Indonesia actually requires more than 300 vessels,²⁰ large and small, to protect its maritime space and

resources, as well as plenty of port facilities and technology for that purpose. However, particularly after the 1997 Asian financial crisis, the relatively low military budget inevitable causes the lack of resources available.

Consequently, Indonesia faces many problems in terms of maintaining and providing security in its sea territory. This is of course beyond a national issue because the Indonesian archipelagic waters host the most significant sea-lanes of international transportation and communication.

Several agencies are responsible for law enforcement and security at sea in Indonesia. These agencies are assembled as the Indonesia Maritime Security Coordinating Board (*Badan Koordinasi Keamanan Laut / BAKORKAMLA*), which is supposed to coordinate all maritime security and law enforcement activities. The coordinating board has actually existed since 1972, when it was set up through a joint decree between the minister of defence and security affairs (and chief commander of the armed forces), the minister of transportation, the minister of judicial affairs, and the attorney general. Following the new trends of maritime affairs, the board has gone through reform and has been called for urgent restructuring. However, the coordination of the activities of these agencies has been difficult, as their roles are not clearly defined. Such confusions only add to the incapability of the state to provide security and enforce law at sea.

Indonesia also realizes the need to strengthen its law enforcement capabilities in the Straits by improving surveillance,

¹⁶ See for example Umar Tarmansyah, "Strategi Penguatan Penegakan Kedaulatan Wilayah Negara di Laut dalam rangka Menghadapi Kejahatan dan Pelanggaran Wilayah Perairan Nusantara", in *Buletin Litbang Dephan*, 9, no. 17, 2006, available at <http://buletinlitbang.dephan.go.id/index.asp?vnomor=17&mnorutisi=4>; and "Memimpikan TNI AL yang Kuat dan Profesional", in *Kompas*, 23 January 2004.

¹⁷ Department of Defence of the Republic of Indonesia, "Pokok-Pokok Kebijakan Menteri Pertahanan RI Tahun 2006", Chapter 2, available at <http://www.dmc.dephan.go.id/html/profil/2006/juni/permenbab2.htm>.

¹⁸ Ibid.

¹⁹ See TNI AL, "Rencana Pembangunan Kekuatan TNI AL Jangka Panjang", available at <http://www.tnial.mil.id/Postur/Renbangkuat/tabid/127/Default.aspx>; and "TNI AL Masih Butuh 376 Kapal Perang untuk Amankan Indonesia", in *Antara News*, 1 August 2007.

²⁰ "Prof. Sahala Hutabarat: Kapal Asing Hanya di ZEE", in *Kompas*, 27 July 2001.

monitoring system as well as response capabilities. However, its current economic problems have hindered all efforts to increase such capabilities. It calls for international assistance, while at the same time emphasises that it rejects any foreign navy being directly involved in providing security in the area.²¹ In this regard, the sensitivity of national sovereignty issue plays an immeasurable part.

Indonesia seeks for international assistance, such as in the provision of aid, equipment and trainings, or in organizing and coordinating cooperative efforts and linkages with other interested parties. There has been a wide concern in Indonesia that the users of the waterway, which in the perspective of Indonesia are those who are in need of the security and safety services, do not seem to be interested to assist.²² There have been a number of incidents when Indonesia accused external parties to be violating its national sovereignty by trying to "internationalize" the Straits of Malacca and Singapore, for example the offers from the US and India to assist to complement security efforts by providing military forces patrolling or being stationed in Indonesian waters.²³ This

implies that while assistance is requested, the direct presence of foreign forces in the area is unquestionably not desirable.

We can see here that Indonesia is caught between two realities. For one, it realizes its lack of resources to providing safety and security in the Malacca and Singapore Straits, whilst realizing that many users of the waterway depend on safety and security guarantee—if not from the local forces, then from other actors that can provide it. On the other hand, Indonesia is faced with sovereignty issue, which is upset with great sensitivity by the employment of foreign forces, both state and private, in providing security services in its territory.

THE INTERSTATE AND REGIONAL COOPERATION

As Indonesia and the two other littoral states are putting efforts into strengthening their own respective defence and law enforcement systems, they have also cooperated through various means to secure the Straits of Malacca and Singapore. It is clear that a comprehensive maritime security regime in the region is required. Bilateral efforts to combat crime at sea include a series of bilateral agreements among Indonesia, Malaysia, and Singapore to conduct joint exercises at sea and to coordinate naval patrols in the Straits of Malacca and Singapore.

In 2004, a trilateral agreement between the littoral states was signed to establish the Malsindo, a coordinated patrol in the Malacca Straits involving the navies of Indonesia, Malaysia and Singapore. The

²¹ See for example Bernard Kent Sondakh, "National Sovereignty and Security in the Strait of Malacca," paper presented at the Maritime Institute of Malaysia Conference, 12 October 2004, 4; and Hasjim Djalal, "International Framework for Maritime Security: Current Situation and Problems," paper presented at the IIPS Meeting, Tokyo, 9-14 December 2001, 6.

²² See for example *Ibid.*, 6.

²³ Catherine Zara Raymond, "Piracy in Southeast Asia," 16-17.

initiative is a joint special task force to safeguard the Straits and provide effective policing along the waterway. Later on, in 2006, combined coordinated air patrols over the Straits were introduced, named the Eye in the Sky (EiS). EiS features the combined maritime air patrol by the armed forces and maritime enforcement agencies of the littoral states and invited international participating states that provide their respective air assets to conduct operations involving flight profile, pre-flight administration, operation centres, monitoring and action agencies and communication. These two frameworks of cooperation were brought together as the Malacca Straits Patrol Network. Another bilateral effort has been made by Indonesia and Singapore, aiming to launch a surveillance radar system in a bid to boost waterways security in the Singapore Straits linking the Straits of Malacca to the South China Sea.

Despite the initial optimism for Malsindo, severe resource constraints mitigate the usefulness of the arrangement. Moreover, the contiguity of territorial seas in the Straits hinders law enforcement due to the almost impossibility of hot-pursuit activity. Malsindo entails the coordination of patrols by a littoral state in its jurisdiction and sovereignty area with patrol partners in other areas, with the command centred in the respective countries. The unlikelihood of hot-pursuit more than often results in criminals escaping into the adjacent state's waters. In this regard, efforts of law enforcement in the area are hindered by the sensitivity of the littoral states over the issue of sovereignty.

EiS has also been widely criticized for the low number of actual flights taking place and the limited resources available to respond to incidents spotted from the surveillance airplanes. It is estimated that 70 sorties per week need to be carried out by the aerial patrols in order to effectively and fully monitor the Straits, however currently only 8 sorties are done.²⁴

In the framework of ASEAN, in 2002 the ASEAN Special Ministerial Meeting on Terrorism adopted a work program to implement the ASEAN Plan of Action to Combat Transnational Crimes, which explicitly includes matters of maritime security.²⁵ The work program lays out several projects in information exchange, legal matters, law enforcement matters, training, institutional capacity-building and extra-regional cooperation in response to sea piracy problems in Southeast Asia.

Cooperation with international organizations has also been done. One of them is the cooperation between the littoral states and the International Maritime Organisation (IMO), which was realized through two meetings, the first one in Jakarta in 2005 and later on in Kuala Lumpur in 2006. In the Kuala Lumpur meeting, delegation from the three littoral states and from 28 other states with interest in the safety of the Straits of

²⁴ Graham Gerard Ong and Joshua Ho, "Maritime Air Patrols, A New Weapon Against Piracy in the Malacca Straits", IDSS Commentary, Singapore, 2005.

²⁵ "Work Programme to Implement the ASEAN Plan of Action to Combat Transnational Crime", Kuala Lumpur, 17 May 2002, available at <http://www.aseansec.org/5616.htm>.

Malacca and Singapore, as well as observers from ASEAN and nine non-governmental organizations, discussed recent developments relating to safety, security and environmental protection of the Straits, with the aim to develop mechanisms and programs to facilitate cooperation in keeping the area safe and open to international transportation and communication. The meeting adopted the Kuala Lumpur Statement,²⁶ which reflects the seriousness of the joint effort to realize its objectives. In the statement, it was agreed to support the continuous efforts of the littoral states and a cooperative mechanism on safety of navigation and environmental protection, the aim of which is to promote dialogue and facilitate close cooperation between the littoral states, user states, shipping industry and other stakeholders.

Efforts of information sharing have also been done, not only among the littoral states but also with other users of the Straits. One significant effort is the Regional Cooperation Agreement on Combating Piracy and Armed Robbery against Ships in Asia (ReCAAP), which is followed by the establishment of ReCAAP Information Sharing Centre in Singapore. The centre maintains database, conducts analysis, and acts as an information clearinghouse. However, this effort is hindered by the fact that both Indonesia and Malaysia have not

ratified the agreement, mostly stemmed from the possibility that the centre might publish reports unfairly critical to the littoral states.²⁷ Moreover, the agreement does not obligate members to any specific action other than sharing information that they deem pertinent to imminent piracy attacks²⁸, which may hinder its way towards objecting its aims to combat piracy and armed robbery in Asia.

Regardless of the effort in forging a comprehensive maritime security regime, developments in cooperation and implementation of counter-measures have moved at a steady pace. As was explained in the previous part, the first half of 2007 even showed an increase of armed robbery attacks in area of the Straits of Malacca and Singapore, which reflects the vulnerability of these waters. The weaknesses found in the interstate and regional efforts in securing the Straits of Malacca and Singapore add more problems aside from the littoral states' limited resources available to military and law enforcement agencies at sea. Differing national priorities, mistrust, lack of confidence and hidden agendas altogether make things difficult when it comes to formulating and agreeing upon ways and means. Moreover, concerns over maintaining sovereignty suggest that the existing interstate and regional cooperation in maritime security has been in most cases merely diplomatic.

²⁶ "Kuala Lumpur Statement on Enhancement of Safety, Security and Environmental Protection in the Straits of Malacca and Singapore", Kuala Lumpur, September 2006, available at http://www.imo.org/includes/blastData.asp?doc_id=7008/kuala%20lumpur%20statement.pdf

²⁷ John F. Bradford, "The Growing Prospects for Maritime Security Cooperation in Southeast Asia," in *Naval War College Review* 58, no. 3 (2005): 7.

²⁸ Ibid, 7.

In this regard, the need for security and safety in the area has not been met through these efforts thus far.

EMPLOYMENT OF PRIVATE SECURITY COMPANIES

The employment of private security companies offering maritime security services in Southeast Asia is seen as more significant by users of the Straits of Malacca and Singapore as the safety and security problems in the area continue to exist. Private security companies are private business companies, offering a vast menu of military and security services.²⁹ The range of their services include both the more active services such as prevention of attacks and crisis and post-attack response, and also other services such as security planning and risk-analysing consulting services. Hart Security, for example, offers various maritime training and strategic maritime asset consultancy³⁰, while Background Asia Risk Solution, another private security company operating in the area claims to be the leading provider of armed escorts in the Asian region for maritime assets³¹, and is known to provide armour-plated vessel to escort boats between Sri Lanka and the South

China Sea, charging about US\$ 50,000 per mission.³² High value and particularly vulnerable assets passing through the Straits of Malacca and Singapore are the regular customers of their services. For between US\$10,000 and US\$100,000 a shipping company can have armed escort vessels and helicopter scouts securing its passage through the Straits.³³

These private companies are part of the worldwide process of privatization of military and security services³⁴, and the ones operating in the Straits of Malacca and Singapore are part of large companies that are usually based in the United Kingdom or the United States and have been in operation for decades. The majority of private security companies operating in the maritime sector seem to be founded and staffed by ex-military or ex-law enforcement personnel, with their past military experiences supporting the companies' credentials and reputation.³⁵ Yet, it is ambiguous how such military experience should be significant when they are now operating non-war areas and in sectors that deal more with commercial instruments.

These private companies, in some aspects, have an edge over the states. As has been explained in the previous

²⁹ Carolin Liss, "Southeast Asia's Maritime Security Dilemma: State or Market?" in *Japan Focus*, 8 June 2007, available at <http://www.japanfocus.org/products/details/2444>.

³⁰ See the official website of Hart Security at http://www.hartsecurity.com/aboutus_maritime.asp.

³¹ See the official website of Background Asia at www.backgroundasia.com/security/maritimesecurity.html.

³² "Indonesia Rules Out Private Armed Escorts in Malacca Strait."

³³ "For Hire: Guardians of the Sea: Several firms Now Offer Escort Vessels and Mercenaries," in *The Straits Times*, 15 April 2005

³⁴ Liss, "Southeast Asia's Maritime Security Dilemma."

³⁵ Ibid.

section, the efforts of the states have often been hindered by the practice of non-interference and sensitivities over the traditional notion of state sovereignty. On the other hand, the private companies are able to set the sensitivities aside and are more flexible in their *modus operandi*.³⁶ Moreover, the employment of a private security company promises the use of highly experienced and motivated individuals, working solely in the client's interest.³⁷

Indonesia and Malaysia have vociferously expressed their disapproval and concern to the existence and operation of private armed escorts within their territory³⁸, although the three littoral countries lack a common policy on the employment of these private companies. Singapore, while having not declared the operation of these companies in its territorial water legal, is host to offices of some private military companies operating in the region, for example the UK-based companies Hart Security and Glenn Defence Marine Asia, and also Background Asia (BARS).

In general, the littoral states' opposition towards the operation of private security companies are based these concerns: sovereignty issues; problems with local forces legal problems; and various risks of accidents and violence. Indonesia and Malaysia have been very sensitive towards any activity that may jeopardise their territorial sovereignty and the legality of the services of these private companies, in particular armed escort operations. As the UNCLOS states, the legitimate monopoly over the use of force in matters of security lies with the state, and not with ships passing through those waters.³⁹ Moreover, ships passing through territorial waters are bound to international law relating innocent passage and transit passage⁴⁰, which is not the case in the operations of armed escorts as they are clearly carrying arms. With this reference, from the perspective of the littoral states, it is fair that they are concerned with the supply of such services by private companies.

The second concern emerges from the risk of clash between two different providers of security in one area—in this case the state law enforcement agencies and the private companies, which is very likely to occur considering the sensitive nature of the operation of these companies. This is also related to the risks of accidents and excessive use of violence in cases these armed escorts come into contact with other users of the Straits. There are various risks in this regard, for example the possibility of innocent fishing

³⁶ Morten Hansen, "Security in Maritime Security Asia: Private Solutions to Public Problems," IDSS Commentaries No. 22, Institute of Defence and Security Studies, Singapore, May 2005, 1-2.

³⁷ Liss, "Southeast Asia's Maritime Security Dilemma".

³⁸ See for example Mark J. Valencia, "Mercenaries in the Strait of Malacca," in *The Jakarta Post*, 28 July 2005; "RI Will Not Allow Other Countries to Escort Ships through Its Waters"; "Indonesia Rules Out Private Armed Escorts in Malacca Strait"; and "For Hire: Guardians of the Sea: Several firms Now Offer Escort Vessels and Mercenaries".

³⁹ UNCLOS, Article 19.

⁴⁰ UNCLOS, Article 19.

boats being misunderstood as pirates or the excessive use of firearms when in clash with small-scale robbers.

As for the legal issues, armed escorts are definitely a breach of law since in areas under both Indonesian and Malaysian jurisdiction possession of firearms and even bullets by unlicensed private citizens is a serious offence.⁴¹ If one is to refer again to UNCLOS, then it is clear that UNCLOS regulates that naval ships would require specific and advanced permission for entry.⁴² Moreover, a private company must have a permit from all three littoral states to operate in the area of the Straits of Malacca and Singapore, because the area falls under jurisdiction of three different states. This complicates the legal issue of these companies even more.

QUESTIONING INDONESIA'S EFFORTS TO SECURE THE STRAITS

The employment of PSCs in the Straits of Malacca and Singapore exist as a proof that the efforts of the littoral states, even joined by the efforts of international organizations, to guarantee security in the area have not been successful thus far. Security in the Straits of Malacca and Singapore seem to be gradually slipping out of the hands of the littoral states, as ship owners prefer to turn to private security companies to guarantee their safety. A study⁴³ proposes several reasons

for this: (1) the problem of piracy and armed robbery is not considered as serious as other threats such as international terrorism; (2) the 'lack of agreed definitions' constituting piracy continues to pose as one of the major difficulties faced by the governments; (3) the geographical circumstances create a situation where current provisions within international law concerning piracy do not apply; (4) the littoral states continue to rigidly guard their sovereignty over territorial waters; and, (5) there is lack of available resources as well as equipment.

Considering the current limitations of the states in tackling the problem of piracy and armed robbery, the fulfilment of security guarantee in the Straits cannot be met. Although the efforts of the states have so far led to an increase in the naval capabilities of the littoral countries, the passageway of the Straits of Malacca and Singapore are still labelled as dangerous by the users. In this regard, it is only normal for the users to search for other actors that can provide safety. To put it more bluntly, the states have 'lost in the competition' to provide safety in the Straits of Malacca and Singapore.

This paper does not challenge the notion that the littoral states are the sole legitimate provider of security in the Straits of Malacca and Singapore. Rather, it argues that if the states want to be considered so, they must act accordingly. The main reason the private security companies increase in numbers in the area is because the "customers", i.e. the users of the Straits such as the shipping com-

⁴¹ Mark J. Valencia, "Mercenaries in the Strait of Malacca."

⁴² UNCLOS, Article 19.

⁴³ Graham Gerard Ong, "Ships Can Be Dangerous Too," 9.

panies, picked the service providers that perform better. In this case, in their perspective, it is definitely not the states. This is a simple law of the market. If you were not providing good services, the "customers" would not pick you. In other words, as Indonesia demands to be considered as the sole legitimate provider of security in the area, it should very well fulfil such task.

Security is actually considered public goods, like education and health. In these sectors, there is actually more social benefit, which should make these sectors less desirable for the private actors as they have less chance in making profit. Hence, the existence of private security companies in the Straits of Malacca and Singapore shows that there is something critically wrong with the security services provided by the states.

Another dimension of this problem is how Indonesia condemns the operation of the private security companies illegal while having no capacity to actually enforce the law. Such condemnation without the capacity to enforce it makes the situation even worse, as it proves that there is something seriously lacking in the security sector in the country. This also relates to another clear problem with the rising number of these private security companies, which is the currently ambiguous regulation, if not unregulated at all. Hence, rather than simply condemning their operation illegal, Indonesia must be equipped with the feasible maritime security policy and clear regulation on the operation of the private security companies.

CONCLUSION

The littoral states, to some extent with the assistance of some user states, have indisputably dedicated much effort and resources in trying to prevail over the safety and security problems in the Straits of Malacca and Singapore. However, it is clear that those efforts have not fully reached the objective of providing comprehensive security and safety in the area.

Indonesia, for one, would have to invest profoundly in its law enforcement agencies to provide sufficient resources and personnel in order to offer effective maritime security. However, this is not so likely to be made any time soon, as other issues are more prioritized, particularly issues directly related to improving the social and economic resources in the country.

Nevertheless, improving the state's lack of resources available to military and law enforcement agencies at sea should be the main approach in the effort to respond to the employment of private security companies within its territory, particularly the Straits of Malacca and Singapore. In other words, it is useless for Indonesia to continuously condemning the operation of private armed escorts without actually having the capability to put it into action. It is only when the safety and security services are efficiently provided by the littoral states that the economic benefit for the private actors would decrease. Sharply put, the existence of these private companies should essentially be regarded as a pressure for Indonesia to improve its security sector in general, and its maritime security capacity in particular.

ASEAN at Forty

C.P.F. Luhulima

INTRODUCTION

THE PORTRAYAL of ASEAN at forty years of age dates back to the historic ambition of the founding fathers to forge a political and security community or a community of political and security interests. Such an approach will definitely clip the crucial perspectives of ASEAN's forty years of existence. Consequently this discourse will divulge a number of major goals which emanated from that ambition and which were set out in the ASEAN Declaration in Bangkok on 8 August 1967.

These goals were first to reconcile intra-regional strife, which characterized Southeast Asia at the time in the form of border and territorial disputes,¹ ethnic conflicts and animosities, religious prejudices, and the fear of smaller states of the bigger states. Second was to manage it and create a Southeast Asian regional order on the basis of the social and economic systems of each member country and their territorial status quo. Both goals were to be achieved by way of a third goal, which is to speed up "eco-

nomic growth, social progress and cultural development in the region". This goal is indeed more pronounced than the goal to "promote regional peace and stability".

ASEAN's founding fathers were confident that economic and societal development, on the one hand, and peace and stability on the other, were tightly linked. This linkage was expressed time and again in their speeches and in the agreements they signed since the Association's establishment. They are further determined, and this was their fourth goal, "to ensure their stability and security from external interference in any form or manifestation" to "preserve their national identities in accordance with the ideals and aspirations of their peoples". Hence, "all foreign bases are temporary and remain only with the expressed concurrence of the countries concerned and are not intended to be used directly or indirectly to subvert the national independence and freedom" of the member states.¹

¹ C.P.F. Luhulima, Indonesia and the New Regionalism in *The Challenges of the New Government* (Jakarta: Centre for Strategic and International Studies, 2004), 51-53.

SOEHARTO AND AN "INTEGRATED" SOUTHEAST ASIA

For Indonesia, it was Major General Soeharto as Chairman of the Cabinet Presidium at the Opening Session of the 1966/67 Parliament on 16 August 1966 who at the end of his statement said that the solution of the Indonesian-Malaysian *konfrontasi* (confrontation) would contribute greatly to the political stability of Southeast Asia. Such stability was ultimately indispensable for the achievement of "wealth and prosperity" of the Southeast Asian nations. With the ending of *Konfrontasi* with Malaysia, Indonesia stepped up its policy of establishing close cooperation in the region for the benefit of all Southeast Asian nations, to achieve a Southeast Asia cooperating in the economic, technical and cultural fields. Soeharto forcefully continued to say, "If one day an integrated Southeast Asia could be established, then this region could withstand external influences and interventions from anywhere, both economically and militarily. A cooperating Southeast Asia, an integrated Southeast Asia is ultimately a stronghold and bulwark to resist imperialism and colonialism in whatever form and from whatever direction."²

Integration was not to be achieved through economic and commercial schemes but through political initiatives, through developing national resilience, developing the ability of the nation to cope with, endure and survive any kind of challenges or threats in the course of its struggle to achieve its national goals, hence through making rational choices. It is the nation's ability to integrate each component of its existence, ideological, political, economic, socio-cultural and defense and security into its comprehensive strength. It is the "total mobilization and utilization of all of a nation's tangible and intangible resources in defense of its interests".³ It is "an organizational and management concept for peace, prosperity and order in the life of the Indonesian nation based on Pancasila and the 1945 Constitution".⁴ It is a concept of security that is comprehensive in character and is later to become known in the region as comprehensive security, to comprise the multidimensional character of security concerns. These concepts have been very well described below:

"There is somehow a correlation between the vision to create a strong community and those two concepts. The word "resilience" (*ketahanan*) literally means being resistant against external threats or influences. In order to be

² Government announcement on some major issues at the DPR-GR Assembly, which was forwarded by Indonesian Army Gen. Soeharto, The Presidium Leader of AMPERA Cabinet/the Holder of MPRS No. IX/MPRS/1966 Decree, at the opening of the 1966-1967 DPR-GR annual assembly on 16 August 1966 in Jakarta, 21.

³ Donald Weatherbee, "ASEAN: Pattern of National and Regional Resilience" in Young Whan Kihl and Lawrence E. Grinter, *Asian-Pacific Security. Emerging Challenges and Responses* (Boulder, Colorado: Lynne Rienner Publishers, Inc. 1986), 202.

⁴ Explanatory note to the Republic of Indonesia Law, no. 20, 1982, Par. 5

resistant, countries need to be individually strong (in terms of economic, social, political and security), which is related to the concept of national resilience. The ultimate end is that the collection of national resilience would lead to the creation of a strong community of nations able to deter external intervention—which refers to regional resilience."

The success of establishing ASEAN despite the region being overwhelmed by incessant domestic disorder and politics, intraregional strife, and externally by the geopolitics of the Cold War was thus founded on the collective quest for political security and economic development. "There was a convergence in the political outlook of the five prospective member-nations, both with regard to national priority objectives as on the question of how best to secure these objectives in the emergent strategic configuration of East Asia," wrote Adam Malik, Indonesia's foreign minister at the time. The five member-nations were also "aware of the compulsive inclination of outside powers, and especially the major powers, to continue to insert their interests in the affairs of this vitally important part of Asia." As a consequence of the "inevitable pattern of external influences and conflicting interests, the shaping of a coordinated approach" among them "towards the problems of peace, stability and development" was urgently needed and pursued.⁵

⁵ Adam Malik, "Regional Cooperation in International Politics," in *Regionalism in Southeast Asia* (Jakarta: Yayasan Proklamasi & Centre for Strategic and International Studies,), 161.

NATIONAL VS REGIONAL INTERESTS

It was Mr. Rajaratnam, Singapore's foreign minister at the time, who reminded his colleagues at ASEAN's establishment on 8 August 1967 that foreign ministers should not only think of their national interests, but that they should point them against the regional interests: "that is a new way of thinking about our problems." They are "two different things", he continued, "and sometimes they can be conflicting. ... We must accept the fact ... that regional existence means painful adjustments to those practices and thinking in our respective countries. If we are not going to do that, then regionalism remains a Utopia."

Rajaratnam's view was taken into account, and ASEAN was structured to operate in an explorative way, on the basis of the "lowest-common-denominator-seeking" approach, on the basis of deliberations and agreement on one comfortable denominator for all five members before moving to higher levels of cooperation comprising multiple denominators through *musyawarah* and *mufakat*, through consensus and agreement. ASEAN thus operated on the principle of agreed comfort levels and developed a soft relationship style.

Nonetheless, by joining ASEAN, a member country, on the one hand, ostensibly expects to become a participant of a grouping for collecting interests—be they political, economic, or cultural—and thus maintain the status it has already achieved while, on the other, simul-

taneously hoping to improve on it by raising its own international prestige. Hans Indorf wonderfully described ASEAN's regionalism at its earlier stages when he said: "Regionalism has had the ephemeral appeal of providing solutions that were nationally not attainable. It has become an important concomitant for the pursuance of national development".⁶

ASEAN member countries were thus not prepared to "forgo the desire and ability to conduct foreign and key domestic policies' on their own,"⁷ although in the process they learned to grudgingly adapt political and economic decision-making processes to regional requirements. Regionalism was not primarily pursued as an end in itself but more so as a supplementary method for advancing national development.

INSTITUTIONAL EXPRESSION

It is to warrant that ASEAN remains a dependent variable that the ASEAN Ministerial Meeting (AMM) became the highest decision-making body with the ASEAN Standing Committee as the manager of ASEAN affairs in between Ministerial Meetings, except in the field of politics. It is the AMM and the Standing Committee that guarantees that ASEAN does not become an independent variable, a more integrated regional organization,

which will crucially minimize the role of member states. The position of ASEAN's foreign ministers as the highest decision-making body on ASEAN affairs has not changed after the institutionalization of the ASEAN Economic Ministers Meeting in 1976 and the institutionalization of the ASEAN Heads of Governments Meeting at the Singapore Summit in 1992.

Indeed, the ASEAN leaders decision at the 1st Bali Summit to institutionalize the ministerial meetings on economic matters with clear-cut instructions to execute the economic programme areas independent of the AMM, started the ambiguities in the ASEAN machinery and thus the difficulties in the relationship between the AMM and AEMM up until now. The annual ASEAN Ministerial Meeting remains an exclusive gathering of the foreign ministers with all the paraphernalia of ASEAN's public relations exercise: the ASEAN Post Ministerial Meetings and the ASEAN Regional Forum. Economic and other ministers do not feature in this exercise. The institutionalization of the ASEAN summit does not entirely supersede the AMM. ASEAN foreign ministers are apparently adhering to the robust statement of former Philippine foreign minister Carlos P. Romulo in Jakarta in May 1974 when he unequivocally reiterated the status of the AMM: "The ministerial meeting shall remain the policy deciding body in ASEAN and this power shall in no way be diminished".⁸

⁶ Hans H. Indorf, *Impediments to Regionalism in Southeast Asia. Bilateral Constraints Among ASEAN Member States* (Singapore: ISEAS, 1984), 6.

⁷ Leon N. Lindberg, *The Political Dynamics of European Economic Integration*, Stanford: Stanford University Press, 1963), 6.

⁸ Carlos P. Romulo, Closing Speech at the Seventh ASEAN Ministerial Meeting, Jakarta, 9 May 1974.

GLOBALIZATION PROCESS IN SOUTHEAST ASIA

The globalization onslaught in South-east Asia in the form of the financial crisis raises the critical question of how relevant ASEAN is in the context of a globalized and consequently competitive political and economic amphitheater. At the start of the 1990s, as a reaction to Fortress Europe, to Europe 1992, and to NAFTA⁹, ASEAN proclaimed the ASEAN Free Trade Area (AFTA) complete with target dates, a novum in ASEAN's history with its emphasis on the "lowest-common-denominator-seeking" approach, the ASEAN way, with principles and norms articulated into in the Treaty of Amity and Cooperation.

The principles of not hampering "the independence, sovereignty, equality, territorial integrity and national identity" of all nations, of guaranteeing that each country in the region shall have the right to "lead its national existence free from external interference, subversion or coercion"; that there will be "non-interference in the internal affairs" of one another; that "settlement of differences or disputes shall be conducted only by "peaceful means"; and that the "threat or use of force" shall be repudiated, and that "effective cooperation among themselves" shall be fostered, seem difficult to perpetuate into the 21st century. Yet the ASEAN Security Community continues to emphasize these principles and values as

the unalterable core of ASEAN's political and security thinking.

HUMAN RIGHTS MECHANISM

However, the forceful emphasis on democracy, human development, human rights and fundamental freedoms in the ASEAN Security Community document reflects the drive of the ASEAN member countries, particularly of Indonesia, to set up *common norms and values* and an ASEAN Regional Mechanism on Human Rights. And it is the ASEAN Security Community that provides an important conceptual framework for the establishment of a human rights mechanism with an emphasis on the "promotion and protection of the rights of children, women and migrant workers." These three groups were singled out, as they were those sections in society, which are conspicuously sidelined in the mainstream activities of ASEAN. The establishment of a human rights mechanism in the region would provide a common standard and, thus, a better human rights protection for the people of ASEAN.

Yet, the questions to be raised are: How will democracy, human security and development and fundamental freedoms be harmonized with "independence, sovereignty" of each member state, and the leading of "national existence free from external interference, subversion or coercion"? How can these principles that originated in the Treaty of Westphalia of 1648 and cherished in the Treaty of Amity and Cooperation in Southeast Asia of 1976 be further retained against the onslaught

⁹ North American Free Trade Area comprising Canada, Mexico and the United States of America

of globalization and the equally sensational assault of information and communication technologies? The principle of non-intervention has already come under severe strain in dealing with Myanmar and the trans-border pollution caused by forest fires in Indonesia, and democracy and human security will further encroach upon the non-interference principle. The Eminent Persons Group on the ASEAN Charter, however, formulated it too diplomatically: "ASEAN may need to calibrate the traditional policy of non-intervention in areas where the common interest dictates closer cooperation".¹⁰ This will compromise ASEAN's thrust for democracy and human security.

GLOBALIZATION AND ASEAN'S SOFT RELATIONSHIP STYLE

The globalization onslaught in South-east Asia has changed ASEAN's soft relationship style. AFTA, ASEAN 2020, and the establishment of the ASEAN Community by 2015 changed ASEAN's approaches. The modes of achievement of the targets of regional cooperation and integration have changed from an exploratory method of approach to a normative one. If ASEAN targets were earlier to be developed on the basis of existing competences into the future, on the basic-common-denominator-seeking approach, the new approach establishes a clear target

for the development of capabilities to achieve the set targets of AFTA, democracy, human security, the single market and production base and others, to achieve these bold and visionary ideas to strengthen ASEAN. So the future ASEAN should be constructed through "the active strengthening of democratic values, good governance, rejection of unconstitutional and undemocratic changes of government, the rule of law including international humanitarian law, and respect for human rights and fundamental freedoms" and, economically,¹¹ through striving for a "single market and production base", "with free movement of goods, ideas and skilled talent along with efforts to harmonize regional economic policies and strengthen regional linkages and connectivity".

These normatively established targets will heighten ASEAN's stakes and with it its member states' adjustment to regional standards and requirements. Their being unwilling to forego "the desire and ability to conduct foreign and key domestic policies" will have to be further adjusted to the new regional requirements. The adaptation to the requirements of an ASEAN community will, it is felt, need an ASEAN Charter, a legal document elaborating the construct of the new ASEAN: a democratic ASEAN founded on the rule of law and full integration of ASEAN economies.

¹⁰ Report of the Eminent Persons Group on the ASEAN Charter, Fundamental Principles and Objectives, 2.

¹¹ ASEAN Economic Community

GLOBALIZATION AND CIVIL SOCIETY

The globalization offensive also forces ASEAN to increasingly recognize and involve civil society, the non-state actors and citizens in the ASEAN process. ASEAN has indeed been very slow in recognizing and involving the non-state actors in its decision-making processes let alone its citizens, and even then only very peripheral. The initiation of the non-state actor networks has been primarily conducted by the ASEAN Institute of Strategic and International Studies (ASEAN-ISIS), which promotes the interaction between the elite and intellectuals in the region. The other regional non-state actor is the ASEAN Chambers of Commerce (ASEAN-CCI). ASEAN, however, relies more on the national CCIs to represent ASEAN's economic endeavors. The involvement of large-scale entrepreneurs in ASEAN's economic activities is, however, not shared proportionally by, particularly in the case of Indonesia, the small and medium-scale enterprises (SMEs). Hence, many representatives of Indonesia's SMEs complained that the regional economic initiatives benefit the conglomerates rather than the SMEs.¹²

ASEAN PEOPLE ASSEMBLY

The ASEAN People Assembly (APA) in Batam in 2002 and in Bali in 2003 and

in Manila the year after were attempts by ASEAN ISIS, and organized by CSIS, to involve the state and broader sections of civil society in ASEAN's second-track or non-state actors' activities. M.R. Sukhum-band Paribatra, Member of Parliament from Thailand, was very assertive in his opening address at the Second APA, when stating,

APA must and can act as a spearhead. It can be in the forefront of civil society's efforts to enhance the scope and quality of regional cooperation. It must and can help inspire ASEAN officialdom to adopting the human agenda as a priority, and to help ensure that ASEAN becomes a true community." He also stated "civil society must provide the inspiration to move ASEAN cooperation towards a more human-centred and -oriented agenda. ... The human dimension should be the focus of regional cooperation and national governance."¹³

This line of thinking became a central feature in the Eminent Persons Group on The ASEAN Charter¹⁴ when they stated, "ASEAN needs to shed its image of being an elitist organization comprising exclusively diplomats and government officials." ASEAN should do more, they continued, "to strengthen people-to-people ties", and to open up communications for consultations with "ASEAN institutions, Parliamentarians in ASEAN Member

¹² C.P.F. Luhulima, *Indonesia and the New Regionalism*. See also Alexander C. Chandra, "ASEAN Foundation still an under-utilized resource," *The Jakarta Post*, 19 April 2007

¹³ Challenges Facing the ASEAN Peoples, Report of the ASEAN People's Assembly, Bali, 30 August – 1 September 2002, Jakarta: Centre for Strategic and International Studies, 2003, 22-24 quoted in C.P.F. Luhulima, *Indonesia and the New Regionalism*.

¹⁴ Report of the Eminent Persons Group on the ASEAN Charter, Towards A People-Oriented ASEAN, 6

States (AIPA) and the people of ASEAN in all sectors of society". Their inputs can help "strengthen cultural awareness, forge closer common ASEAN identity", and improve human security and development in ASEAN.

They therefore recommended that ASEAN need to cultivate itself "as a people-centred organization and to strengthen the sense of ownership and belonging among its people, including enhancing the participation of and interaction among Parliamentarians in ASEAN Member States (AIPA), representatives of civil society organizations, the private business sector, human rights groups, academic institutions and other stakeholders in ASEAN. Consequently, a stronger political will is necessary if ASEAN is to succeed in this endeavor.

FROM REGIME SECURITY TO HUMAN SECURITY

The forceful weight on democracy and human rights simultaneously shifted the emphasis in Indonesia's comprehensive security from *regime security* to *human security* in the new construct of national security. Without human security there can be no national security. This is what Kofi Annan, Secretary General of the United Nations, tried to convey with his new concept of national security:

Human security can no longer be understood in purely military terms. Rather, it must encompass economic development, social justice, environmental protection, democratization, disarmament, and respect for human rights and the rule of law, good governance, access to education and healthcare

and ensuring that each individual has opportunities and choices to fulfill his or her potential. Every step in this direction is also a step towards reducing poverty, achieving economic growth and preventing conflict. ... These are the interrelated building blocks of human – and therefore national – security."¹⁵

It was also Hassan Wirayuda, Indonesian foreign minister, who proposed the establishment of an ASEAN commission on human and people's rights to ensure their protection in the region on the model of the African Commission on Human and Peoples' Rights within the African Union. He also proposed the right to intervene in an ASEAN member state if "war crimes, genocide and crimes against humanity" were committed. For Indonesia's foreign policy elite, democracy and human security are decisive factors in national security in this globalized world, and as such the pursuit of human security in ASEAN will simultaneously ensure the life of the ASEAN peoples. The initiative of establishing such an ASEAN-wide human rights mechanism will make some of his ASEAN colleagues uncomfortable, but Indonesia is adamant that such an approach should be pursued on the step-by-step basis in order to make the ASEAN a highly respected institution.

We may start from establishing a network among the mechanisms already existing in

¹⁵ Kofi Annan. "Secretary-General Salutes International Workshop on Human Security in Mongolia," Two-Day Session in Ulaanbaatar, May 8-10, 2000. Press Release SG/SM/7382. <http://www.un.org/News/Press/docs/2000/20000508.sgsm7382.doc.html> - 08/27/01; Kofi Annan. "Towards a Culture of Peace."

some countries. We may already embark upon cooperation in education and public awareness. We may also converge on such immediate problems as the protection of women, children, people with disabilities, and migrant workers.

But, at the end of the day, a regional mechanism would provide a common standard and, thus, a better human rights protection for our people.¹⁶

Meanwhile, ASEAN has agreed, at the 40th AMM in Manila at the end of July, upon establishing a human rights commission after Myanmar gave up its resistance to the plan.

The issue of national sovereignty will certainly play an important role, but ASEAN member countries will have to relinquish certain degrees of that sovereignty in setting such a commission. ASEAN is building a community, and sacrifices will have to be made. That was what Mr. Rajaratnam, Singapore's minister of foreign affairs reminded his colleagues at ASEAN's establishment in 1967. ASEAN Member States must thus make conscious efforts "to promote the benefits of closer regional integration as well as accord higher national priority to ASEAN in their domestic agendas"¹⁷.

¹⁶ Keynote Speech by H.E. Dr. N. Hassan Wirajuda, Minister for Foreign Affairs Republic of Indonesia at the Fourth Workshop on the ASEAN Regional Mechanism on Human Rights, Jakarta, 17 June 2004.

¹⁷ Report of the Eminent Persons Group on the ASEAN Charter, 7.

THE ISSUE OF ASEAN LEADERSHIP

ASEAN has since its start been led by strong, charismatic political figures: Soeharto in Indonesia, Lee Kuan Yew in Singapore, Dr. Mahathir in Malaysia, Ferdinand Marcos in the Philippines, and Prem Tinsulanonde in Thailand, to name the most prominent ones. The charismatic leadership has made ASEAN the cornerstone of members' foreign policies. The globalisation process has introduced two types of new leaders ASEAN will need in the 1990s and into the 21st century: Prime Minister Goh Chock Tong in Singapore and Anand Panyarachun in Thailand. It was Anand, backed up by Goh Chock Tong, who insisted on an ASEAN Free Trade in the region complete with target dates which later were brought forward. Since the Singapore Summit ASEAN ventured into the normative approach of deciding on ASEAN's future, away from the comfortable "lowest-common-denominator seeking" approach. However, ASEAN solidarity making leaders were still resiliently in power in Indonesia and Malaysia.

With the onslaught of the financial crisis in Southeast Asia and particularly in Indonesia, the new Indonesian leadership became completely disoriented in facing the radical changes in the region of Southeast Asia and neighborly relations, particularly between Indonesia and Malaysia and Singapore, the core of ASEAN, soured. ASEAN's new leadership will indeed need to be essentially administrators and managers, capable of conceptualizing road maps to bring ASEAN forward towards the target dates of 2015,

particularly of the ASEAN Community, with its three pillars of politics and security, economics and finance, and socio-cultural targets. The emergence of this new type of leadership is still nowhere to be sighted, ten years after the financial crisis, to mobilize ASEAN again.

CONCLUSION

ASEAN's endeavors at its 40th birthday to involve wider sectors of its populations and their institutions in its attempt to achieve the goal of, politically, establishing an ASEAN Community with, politically, the central values of democracy, democratic changes of government, of human rights and human security, good governance and, economically, a single market and production base by 2015 will indeed be a colossal challenge. Indonesia's insistence on the implementation of democracy and democratic institutions, human rights and its implementing mechanisms, and to be explicitly incorporated in the ASEAN Charter, though agreed upon and signed in Bali in 2003 to be implemented in 2015 will allegedly meet with a number of obstacles.

Similarly, Singapore's insistence on ASEAN as a single market and production base, although agreed in Bali, will equally meet with tremendous impediments as a consequence of the imposition of high tariff and non-tariff barriers imposed by the other nine members and the long periods of dismantling them. But at the opening of the ASEAN Ministerial Meeting in Manila, 30 July 2007, President Gloria Macapagal-Arroyo stated unequi-

vocally: "An Asean community is going to be anchored first and foremost on economic integration, with a focus on social justice and raising the standard of living in the region. It is about creating a dynamic force in Asia to maximize the benefit of globalization."¹⁸ ASEAN will thus indeed have to speed up its economic integration.

On the one hand, ASEAN will need much more time to adapt itself politically and economically to the prerequisites set to achieve the ASEAN Community. On the other hand, will ASEAN be given that luxury of time in the light of the tremendous achievements of its economic partners and rivals China, India and Korea? But on the other hand, as President Gloria Macapagal Arroyo said in her opening speech at the fortieth AMM in Manila:

The rise of China and India—the two most populated countries in the world—as global economic powerhouse has opened a lot of opportunities and challenges for all the countries in the region. Japan, of course, remains to be the second largest economy in the world and will also significantly influence the course of development in Asia.¹⁹

Does she indicate that ASEAN's economic integration need to be achieved in the context of an East Asia community, beyond an East Asia Summit? And how does economic integration speed up po-

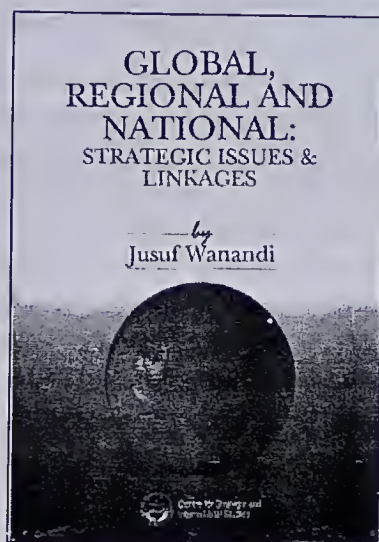
¹⁸ Ibid.

¹⁹ President Gloria Macapagal-Arroyo's Speech During the Opening Ceremony of the 40th ASEAN Ministerial Meeting Manila, 30 July 2007..

litical integration in the context of the ASEAN community? Political integration is indeed a tedious process against the background of the over-emphasis on sovereignty and non-intervention in ASEAN. Can national and regional resilience, after being marginalized since the early

nineties, be pulled back again towards the centre in ASEAN's endeavors in establishing the ASEAN Community? ASEAN indeed need a new type of leadership to provide the guidelines towards the achievements of an ASEAN community.

GLOBAL, REGIONAL AND NATIONAL STRATEGIC ISSUES AND LINKAGES



By Jusuf Wanandi

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This volume is a collection of the collums of Jusuf Wanandi in *The Jakarta Post*, covering over a period of over twenty years since January 1984. The collection of articles selected for this book shows the comprehensiveness of Jusuf Wanandi's thoughts. They range from international and regional political affairs to domestic developments in Indonesia. The last twenty years have been a very interesting two decades of significant in the global arena that saw the ending of the Cold War and the acceleration of the process of globalization. Significant changes also took place in Indonesia as well as in Southeast Asia and the wider region of East Asia and Asia Pacific. These regions have entered an era that is characterized by dynamic economic interactions leading to greater independence.

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Regional Approach to Conflict Resolution

Omar Halim¹

ASEAN ESTABLISHMENT

THE UNITED NATIONS in its Charter has stated that "nothing in the present Charter precludes the existence of regional arrangement or agencies for dealing with such matters relating to the maintenance of international peace and security as are appropriate for regional action, provided that such arrangements or agencies and their activities are consistent with Purposes and Principles of the United Nations".¹ Furthermore, "the Members of the United Nations entering into such arrangements or constituting such agencies shall make every effort to achieve pacific settlements of local disputes through such regional arrangements or by such regional agencies before referring them to the Security Council"² and, finally, "the Security Council shall encourage the development

of pacific settlement of local disputes through such regional arrangements or by such regional agencies either on the initiative of the states concerned or by reference from the Security Council".³ The United Nations Security Council thus, in principle, defers to regional organizations or arrangements to maintain international peace and security in their respective regions.

Within the region of Asia and the Pacific, the most concrete regional arrangement is the Association of Southeast Asian Nations (ASEAN). ASEAN was established 40 years ago, but in political and security matters cooperation has indeed developed only in the last decade or so. It should be recalled that in the 1950s and 1960s, Southeast Asia had just emerged from the yoke of colonialism and was in the thick of searching and forming their respective national identities. In this

¹ United Nations Charter, Article 52.1

² United Nations Charter, Article 52.2

³ United Nations Charter, Article 52.3

context, the idea of forming a regional entity, comprising the various ethnic, social and political groupings, was not easy to implement. In 1967, the founders of ASEAN chose, foremost, to develop confidence among their respective countries and to focus on cooperating in the economic, social and cultural fields through "joint endeavors" and "active collaboration and mutual assistance".⁴ At that time, they made "no impassioned call for ASEAN members to take common political position", although "security concerns and political purposes were never far from the ASEAN founders' intentions".

In November 1971, the original five ASEAN members signed the Zone of Peace, Freedom and Neutrality (ZOPFAN) Declaration. It commits all ASEAN members to "exert efforts to secure the recognition of and respect for Southeast Asia as a Zone of Peace, Freedom and Neutrality, free from any manner of interference by outside powers" and "to make concerted efforts to broaden the areas of cooperation, which would contribute to their strength, solidarity and closer relationship".⁵ This could be considered as the first confidence building measure among ASEAN members.

At its first ASEAN Summit in 1976, ASEAN issued a Declaration of ASEAN Concord in which, for the first time, mem-

ber states indicated their intention to expand political cooperation. The programs of action called for among others: (1) holding ASEAN summits; (2), settling intraregional disputes; (3) improving the ASEAN machinery to strengthen political cooperation; (4) studying how to develop judicial cooperation, including the possibility of an ASEAN extradition treaty; and, (5) strengthening political solidarity by promoting the harmonization of views, coordinating positions and, where possible and desirable, taking common action.

ASEAN member countries also signed a very important Treaty of Amity and Cooperation in Southeast Asia (TAC), which spelled out the basic principles for the relations with one another and the conduct of ASEAN's program of cooperation as follows:

- (a) Mutual respect for the independence, sovereignty, equality, territorial integrity and national identity of all nations;
- (b) The right of every state to lead its national existence free from external interference, subversion and coercion;
- (c) Noninterference in the internal affairs of one another;
- (d) Settlement of differences or disputes by peaceful means;
- (e) Renunciation of the threat or use of force; and
- (f) Effective cooperation among themselves.

TAC is a treaty to which other Southeast Asian countries could accede and with which the non-regional countries could associate themselves. The treaty provides for a code of conduct for the

⁴ These and the following quotations have been taken from articles published by the ASEAN Secretariat in <http://www.aseansec.org/328.htm>.

⁵ ASEAN Secretariat, Overview (<http://www.aseansec.org/92.htm>)

peaceful settlement of disputes. It also mandates the establishment of a High Council, comprising ministerial representatives from the parties as a dispute-settlement mechanism.

Relating to the settlement of disputes, TAC provides that "in the event no solution is reached through direct negotiations, the High Council shall take cognizance of the dispute or the situation and shall recommend to the parties in dispute appropriate means of settlement, such as good offices, mediation, inquiry or conciliation. The High Council may however offer its good offices, or upon agreement of the parties in dispute, constitute itself into a committee of mediation, inquiry or conciliation. When deemed necessary, the High Council shall recommend appropriate measures for the prevention of deterioration of the dispute or the situation".⁶ The Rules of Procedure of the High Council of TAC, however, were adopted only in July 2001 in Hanoi.

In July 2000, ASEAN also established an *ad hoc* body named the ASEAN Troika, comprising the foreign ministers of the present, past and future chairs of the ASEAN Security Community (ASC). The members of the Troika would therefore rotate in accordance with the ASC Chairmanship. The purpose of this *ad hoc* body is to "enable ASEAN to address in a timely manner urgent and important regional political and security issues and situations of common concern likely to

disturb regional peace and harmony. By helping ASEAN to be more responsive to the growing interdependence between the countries in Southeast Asia, the ASEAN Troika would serve to elevate ASEAN cooperation to a higher plane and further serve to enhance ASEAN's unity and solidarity, as well as its overall effectiveness".⁷

After the end of the Cold War, at the 1992 Summit in Singapore, the ASEAN leaders declared that "ASEAN shall move towards a higher plane of political and economic cooperation to secure regional peace and prosperity".⁸ The new environment was seen to present further opportunity for the relaxation of tensions in the region through confidence building, multi-lateral consultations and the prevention of conflict involving countries other than ASEAN members. This led to the establishment of the ASEAN Regional Forum.

The process of political cooperation continued in December 1995 when all ten ASEAN countries signed the Treaty on the Southeast Asia Nuclear Weapon-Free Zone (SEANWFZ). The Treaty showed ASEAN's determination to contribute towards general and complete nuclear disarmament and the promotion of international peace and security. It also aims to protect the region from environmental pollution and the hazards posed by radioactive waste and other toxic materials".⁹

⁶ Article 15 of the Treaty (<http://www.aseansec.org/1217.htm>).

⁷ The ASEAN Troika: Terms of Reference adopted at the 33rd AMM, Bangkok, 24-25 July 2000, Article 2.1 (<http://www.aseansec.org/3637.htm>).

⁸ <http://www.aseansec.org/92.htm>.

⁹ Ibid.

ASEAN REGIONAL FORUM

In 1994 ASEAN and its dialogue partners decided to create an ASEAN-led ASEAN Regional Forum (ARF) with two main objectives¹⁰:

- (a) To foster constructive dialogue and consultations on political and security issues, and
- (b) To contribute towards confidence building and preventive diplomacy in the Asia-Pacific region.

In this latter context, the Foreign Ministers of ASEAN stated in 1994 that "ASEAN should work with its ARF partners to bring about a more predictable and constructive pattern of relations in the Asia Pacific, with the ultimate objective of attaining and maintaining peace and stability in the region in order to enable and promote regional development and prosperity". In July 1996 the ARF adopted the following criteria for participation:

- (a) **Commitment.** All new participants, as sovereign states, must subscribe to the key goals of ARF and work cooperatively to help achieve them. Before their admission, all new participants should agree to abide by the decisions and statements already made by the ARF. All ASEAN members are automatically ARF participants.
- (b) **Relevance.** A state should be admitted only if it can be shown that it has an impact on the peace and security of the "geographic footprint" of key ARF activities (i.e. Northeast and Southeast Asia and Oceania).

(c) **Gradual Expansion.** To ensure the effectiveness of ARF, efforts are made to control the number of participants to a manageable level.

(d) **Consultations.** All applications should be submitted to the ARF Chairman, who will consult all other ARF participants and ascertain whether a consensus exists for admitting the applicant. Actual decisions on participation would be approved by the ASEAN ministers.

The current participants in the ARF are quite diverse: Australia, Bangladesh, Brunei Darussalam, Cambodia, Canada, China, European Union, India, Indonesia, Japan, Democratic People's Republic of Korea, Republic of Korea, Laos, Malaysia, Myanmar, Mongolia, New Zealand, Pakistan, Papua New Guinea, Philippines, Russian Federation, Singapore, Thailand, Timor Leste, United States and Vietnam.

Because of the great diversity in terms of national interests of the participants, the ARF process is considered very fragile. It was decided that ARF should adopt a "gradual evolutionary approach, decision-making by consensus and move at a pace comfortable to all its members in order to attain its long-term objectives"¹¹. It was therefore decided to embark on a gradual three-stage process¹²:

¹¹ ASEAN Regional Forum: Concept and Principles of Preventive Diplomacy (<http://www.aseansec.org/3571.htm>)

¹² The ASEAN Regional Forum: A Concept Paper (<http://www.aseansec.org/3635.htm>)

¹⁰ Ibid.

- Stage I: The promotion of confidence building among participants,
- Stage II: The development of preventive diplomacy, and
- Stage III: The development of conflict resolution mechanisms

CSCAP and ASEAN-ISIS to this meeting in the future¹⁴.

Stage I: The Promotion of Confidence Building

In order to develop a regional environment conducive to the maintenance of peace and prosperity in the region, the ARF should concentrate on enhancing trust and confidence among its participants. ARF has decided to pursue this through two approaches. First, following the experience of ASEAN, ARF should use the principle of good neighborliness, enshrined in TAC¹⁵, as a "code of conduct governing relations between states and a unique diplomatic instrument for regional confidence-building, preventive diplomacy, and political and security cooperation". Therefore, ARF participants are encouraged to associate themselves with TAC.

The second approach is to implement concrete confidence-building measures. In the short-run, the ARF could (a) develop a set of basic principles to ensure a common understanding and approach to interstate relations in the region; (b) adopt a comprehensive approach to security; (c) undertake dialogue on security perceptions, including voluntary statements on defense policy positions; (d) publish defense publications such as Defense

The ARF is complemented by a non-official "Track Two" process contributed by non-governmental institutions, particularly the ASEAN-ISIS and CSCAP. The Track Two activities could focus on the current concerns of the ARF. The synergy between Track One, carried out by governments, and Track Two activities would contribute to confidence-building measures in the region. Over time, the Track Two activities should "result in the creation of a sense of community among participants of those activities". Track Two process could also consider and investigate a variety of preventive diplomacy and conflict resolution mechanisms¹³. In this direction, three workshops had been organized by the International Studies Center of Thailand and the Institute of Policy Studies of Singapore on ASEAN-UN Cooperation for Peace and Preventive Diplomacy, and the Indonesia-sponsored series of workshops on the South China Sea. At the ARF Inter-sessional Support Group on Confidence Building Measures and Preventive Diplomacy held at Manila in March 2006, a proposal was made by Thailand to invite the Chair/Co-chairs of

¹³ For a critical view of the contribution of the Track Two process, see Juergen Roeland, "The contribution of Track Two Dialogue towards crisis prevention", *Asien*, October 2002.

¹⁴ See A Concept Paper on Enhancing Ties between Track I and Track II in the ARF, and between the ARF and Other Regional and International Security Organizations.

¹⁵ And elaborated in the concept of the Declaration of Zone of Peace, Freedom and Neutrality (ZOPFAN) adopted by ASEAN.

White Papers or equivalent documents as considered necessary by the respective governments; (e) participate in UN Conventional Arms Register; (f) enhance contacts, including high level visits and recreational activities; (g) undertake exchanges between military academies, staff colleges and training; (h) observe at military exercises, on a voluntary basis; and (i) organize annual seminars for defense officials and military officers on selected international security issues.

Over the medium- and long-term¹⁶, ARF participants could explore (a) the establishment of a Regional Arms Register; (b) the establishment of a regional security studies center to coordinate existing security studies activities; (c) the establishment of maritime information data bases; (d) cooperative approaches to sea lines of communication, beginning with exchanges of information and training in such areas as search and rescue, piracy and drug control; (e) mechanisms to mobilize relief assistance in the event of natural disasters; (f) the establishment of zones of cooperation in areas such as the South China Sea; (g) the establishment of systems of prior notification of major military deployments that have region-wide application; and (h) the encouragement of arms manufacturers and suppliers to disclose the destination of their arms exports.

Since May 1999, ARF has been discussing the enhancement of the ARF Chair to strengthen the ARF effort to build

confidence by facilitating the exchange of information and dialogue between and among ARF members, particularly on potential areas of cooperation, and liaising with external parties and Track II organizations¹⁷. In July 2005, ARF decided to formulate the standard operating procedures for the ARF Chair to perform its enhanced role and to establish "Friends of the Chair"¹⁸.

From January 1996 to February 2005, there had been 19 ARF Inter-sessional Support Group on Confidence Building Measures meetings held in Japan, Indonesia, China, Brunei Darussalam, Australia, United States, Thailand, Singapore, Republic of Korea, Malaysia, India, Vietnam, New Zealand, Laos, Myanmar, Cambodia and Russia.

In addition, there have been 22 meetings during the period of October 1997 to June 2005 on defense related issues, including ARF workshop on defense/military officials' cooperation; ARF workshop on changes in the security perception and military doctrine of ARF members; and ARF security policy conference, in the Philippines, Republic of Korea, Mongolia, China, Japan, Russia, India, Singapore, Laos, Australia, Cambodia, Thailand and Brunei Darussalam.

There have also been eight meetings on peacekeeping related issues; eight meetings on counter-terrorism related

¹⁷ See Enhanced Role of the ARF Chair, May 2001.

¹⁸ The Twelfth Meeting of the ASEAN Regional Forum (ARF), Vientiane, 29 July 2005.

¹⁶ These could be considered in the immediate future by the Track Two process.

issues; five meetings on maritime security related matters; four meetings on trans-national crime related issues and, finally, eleven meetings on search, rescue and disaster relief related issues. It could be noted that many of these meetings are to increase cooperation among ARF members to face common threats, such as maritime security and terrorism, which could be very effective in increasing confidence among them.

Stage II: The Development of Preventive Diplomacy

In Stage II, ARF would (a) develop a set of guidelines for the peaceful settlement of disputes, taking into account the principles in the UN Charter and the TAC; (b) promote the recognition and acceptance of the purposes and principles of the TAC and its provisions for the pacific settlement of disputes, as endorsed by the United Nations General Assembly in its resolution 47/53 (B) on 9 December 1992; and (c) seek the endorsement of other countries for the ASEAN Declaration on the South China Sea in order to strengthen its political and moral effect¹⁹.

In the medium- and long-run, ARF would (a) explore and devise ways and means to prevent conflict; (b) explore the idea of appointing Special Representatives, in consultation with ARF members, to undertake fact-finding missions, at the request of the parties involved in an issue,

and to offer its good offices; and (c) explore the idea of establishing a Regional Risk Reduction Center as suggested by the United Nations Secretary-General in his *Agenda for Peace* and as commended by the United Nations General Assembly in its resolution 47/120 (Section IV, operative paragraph 4). Such a center could serve as a data base for the exchange of information.

Since October 2000 there have been three meetings on preventive diplomacy related issues: (a) seminar in Finland on approaches to confidence building; (b) workshop in Brunei Darussalam for mid-level ARF civilian and defense officials on preventive diplomacy and ARF workshop on preventive diplomacy in Japan.

In principle, the definition of preventive diplomacy of the ARF is not different, but a little narrower than, that of the United Nations²⁰. In the definition of ARF, preventive diplomacy is 'consensual diplomatic and political action taken by sovereign states with the consent of all directly involved parties to help (a) prevent disputes and conflicts from arising between States that could potentially pose a threat to regional peace and stability; (b) prevent such disputes and conflicts from escalating into armed confrontation; and (c) minimize the impact of such disputes and conflicts on the region'. The United Nations definition includes, in addition, possible use of 'preventive

¹⁹ ASEAN Regional Forum (ARF) Concept and Principles of Preventive Diplomacy, Annex A. (<http://www.aseansec.org/3571.htm>)

²⁰ See ASEAN Regional Forum (ARF) Concept and Principles of Preventive Diplomacy (<http://www.aseansec.org/3571.htm>) and United Nations, *An Agenda for Peace*.

deployment', such as in Macedonia, and the use of 'demilitarized zones'.

In order to be able to prevent disputes to deteriorate into open conflict, ARF will need to have an early warning system to detect the existence of a dispute; to find and investigate the facts surrounding the dispute; and to be able to mediate the disputants. All these would require institutional arrangements, complemented by the ability to act expeditiously, that are rather complex and politically sensitive to establish.

Stage III: The Development of Conflict Resolution Mechanisms

As mentioned earlier, it was decided to proceed along a gradual three-stage process, because of the considered fragility of the ARF process. The establishment of the third stage, i.e. the development of a conflict resolution mechanism, was regarded as an "eventual goal that ARF participants should pursue as they proceed to develop the ARF as a vehicle for promoting regional peace and stability"²¹.

The methods used by a regional organization such as ASEAN, or by extension the ARF, to resolve conflicts within the region no doubt have to be based on pacific means. These methods are, among others, 'negotiation, enquiry, mediation, conciliation, arbitration, judicial settlement'²². It is not conceivable that ASEAN would want, or would be able, to use

force in settling a conflict within the region. This is also consistent with the United Nations Charter that encourages regional arrangements or agencies to settle disputes and conflicts through pacific means.²³ If and when a conflict cannot be settled by pacific means, ASEAN or ARF should refer the case to the United Nations Security Council.

At the international and regional levels, there are two kinds of conflict that have to be dealt with: inter-state and intra-state conflicts. Seen from the point of view of a regional organization or arrangement as a mediator, it is relatively more feasible to deal with conflicts between states, provided both sides have indicated their willingness and readiness to request the regional organization to mediate in resolving their conflict. The main reason is that both sides are sovereign states and the mediator could consider the national authorities as his/her interlocutors. These authorities are normally fully in control of their forces on the ground. Regional groupings such as ASEAN or, if it also involves countries not members of ASEAN, the ARF, if requested by the national authorities to mediate and assist in the resolution of their conflict, should be responsive to provide its good offices.

In intra-state conflicts, the actors are many more and based on different groupings, such as tribes/clans, ethnical and religious, but they all formerly profess to belong to the same nation. The national

²¹ THE ASEAN Regional Forum: A Concept Paper, para. 15.

²² United Nations Charter, Article 33.

²³ United Nations Charter 52.2.

authority, in such cases, is normally also part of the conflicting parties. If all parties are in full control of their forces on the ground, such as was the case in Aceh and Sri Lanka, and if they request ASEAN to mediate, ASEAN should be ready to assist.

In an intra-state conflict and if the internal conflict is widespread and involves practically all groupings, then that nation has reached a failed state situation. No real authority exists. This type of conflict is much more difficult to resolve, and thus to mediate. It seems that, at this stage at least, ASEAN leaders do not envision that such conflict would exist in the region.

In the case of mediating an inter-state conflict, and if considered necessary, ASEAN could deploy a peacekeeping force²⁴ between the contending forces of the conflicting parties. This would be a "provisional measure", before a final solution is found and agreed upon, taken to "prevent an aggravation of the situation".²⁵ The peacekeeping force deployed would require a fully, albeit lightly, armed military force. Since such a peacekeeping force normally has to be deployed within a very short period of time, contributing countries have to prepare the well trained personnel and logistic equipment. The training and

equipping the multi-national force require considerable funds, political will and coordination which ASEAN, or the ARF, have to be prepared to provide.

To deal with intra-state conflicts where the otherwise effective government is facing a rebellion, such as in Aceh and Sri Lanka, the deployment of a peacekeeping force is required to assist the implementation of an agreement which has been reached. In this case, the force would not be purely military, but comprised more of civilian components that deliver humanitarian assistance; demobilization of fighters; oversee the return of refugees and internally displaced persons; human rights monitors; and election monitors. The composition would depend on the nature of the agreement reached between the two sides. In such cases, a foreign armed military force would normally not be acceptable to the sovereign government.

Once a solution to end a conflict is reached, it would be imperative that the ASEAN, or ARF, take further steps to consolidate the peace, by identifying the needs to solidify the peace process, which could be undertaken by, or together with, the United Nations. This peace-building process would necessarily be a long-term one.

It should be emphasized and pointed out that ASEAN, or ARF, could be an effective mediator only if the institution has the moral authority, which is derived from its ability to maintain strict impartiality in helping resolve a conflict.

²⁴ In 2004 Indonesia floated the idea of the formation of a Southeast Asian peacekeeping force that 'could one day help settle disputes such as those in Aceh and the southern Philippines'

²⁵ United Nations Charter, Article 40.

From what has been described, it could be concluded that ASEAN has so far succeeded in building confidence among its members. The ARF Ministers, in 2005, expressed their satisfaction with the ARF process in building confidence. They further committed themselves to further advancing the ARF process toward the preventive diplomacy stage and beyond²⁶. Mechanisms for preventive diplomacy and conflict resolution have yet to be fully developed. The establishment of the ASEAN Security Community may provide the impetus for this.

ASEAN SECURITY COMMUNITY

In 2003, ASEAN adopted a Declaration of ASEAN Concord II in Bali that stipulated the establishment of an ASEAN Community, comprising (a) an ASEAN Security Community, (b) an ASEAN Economic Community and (c) an ASEAN Socio-Cultural Community. It was stated that the "ASEAN Security Community members shall rely exclusively on peaceful processes in the settlement of intra-regional differences and regard their security as fundamentally linked to one another and bound by geographic location, common vision and objectives", "existing ASEAN political instruments such as the Declaration on ZOPFAN, the TAC and the SEANWFZ Treaty shall continue to play a pivotal role in the area of confidence building measures, preventive diplomacy and the approaches to conflict resolution"

and the "High Council of the TAC shall be the important component in the ASEAN Security Community since it reflects ASEAN's commitment to resolve all differences, disputes and conflicts peacefully", and "ASEAN shall explore innovative ways to increase its security and establish modalities for the ASEAN Security Community, which includes, *inter alia*, the following elements: norms-setting, conflict prevention, approaches to conflict resolution, and post-conflict peace building"²⁷.

The ASEAN also added that "the ASEAN Security Community shall contribute to further promoting peace and security in the wider Asia Pacific region and reflect ASEAN's determination to move forward at a pace comfortable to all. In this regard, the ARF shall remain the main forum for regional security dialogue, with ASEAN as the primary driving force".

In order to prevent conflict, the following areas are to be focused on: (a) strengthening confidence building measures among ASEAN members among which military and civilian personnel are to be used in disaster relief operations; (b) strengthening preventive measure; (c) strengthening the ASEAN Regional Forum process, in which the ARF is to move to the "preventive diplomacy stage and beyond"; (d) enhancing cooperation on non-traditional security issues; (e) strengthening efforts in maintaining

²⁶ The Twelfth Meeting of the ASEAN Regional Forum (ARF), Vientiane, 29 July 2005.

²⁷ Declaration of ASEAN Concord II.

respect for territorial integrity, sovereignty and unity of member countries; and, (f) strengthening cooperation to address threats and challenges posed by separatism.

In resolving conflicts, ASEAN wanted to (a) strengthen the dispute settlement mechanism by using modes, such as negotiations and consultations, good offices, conciliation and mediation, or the use of the High Council of the TAC; (b) developing regional cooperation for the maintenance of peace and stability by, among other things, establishing a network among existing national peacekeeping centers to conduct joint planning, training, and sharing experiences to establish regional arrangement for the maintenance of peace and stability; and, (c) developing supporting initiatives by considering, among others, establishing an ASEAN Institute for Peace and Reconciliation.

Particularly after the Tsunami disaster that occurred in December 2004, ARF Ministers have decided to work together in emergency relief, rehabilitation and reconstruction, as well as the prevention and mitigation efforts in addressing natural disasters.²⁸ For this purpose, and also for post-conflict peace building programs in the future, ASEAN needs to strengthen its humanitarian assistance capacity, including the possible establishment of an ASEAN Humanitarian Assistance Center.²⁹

It is clear that ASEAN has gone a long way, in the last four decades, to assert itself to play an important role in maintaining, and if necessary restoring peace and security in the region of Asia and the Pacific. Starting from efforts to build confidence among its member countries at the beginning, ASEAN has now indicated its preparedness to undertake, using all its mechanism including the ARF, conflict prevention, conflict resolution and post-conflict peace building activities to maintain international peace and security in Asia and the Pacific. This is consistent with the role assigned to regional arrangements by the United Nations.

STRENGTHENING ASEAN'S CAPACITY

The ASEAN Leaders decided in December 2005 that ASEAN should take the necessary steps to enable the Association to face the challenges of the 21st century. For this purpose, they tasked an Eminent Persons Group (EPG) to recommend an ASEAN Charter which "besides conferring a legal personality on ASEAN, the Charter seeks to infuse ASEAN with a renewed sense of purpose, to reaffirm and codify key objectives and key principles, to strengthen its institutions and organizational structure, and to strive to narrow the development gap, so that ASEAN can retain its role as driving force in regional dialogue and cooperation"³⁰. While the

²⁸ The Twelfth Meeting of the ASEAN Regional Forum (ARF), Vientiane, 29 July 2005.

²⁹ ASEAN Secretariat, "ASEAN Security Community Plan of Action" (<http://www.aseansec.org/16827.htm>).

³⁰ Report of the Eminent Persons Group on the ASEAN Charter, December 2006, 6.

EPG has now submitted its recommendations, the ASEAN Summit in January 2007 has endorsed the report of the EPG and further tasked a High Level Task Force to commence drafting the Charter, which is to be adopted by the ASEAN Summit in November 2007.

It is therefore expected that by the end of 2007, ASEAN will have a solid base to establish the necessary machinery to further its capacity to deal with regional conflicts. In this context, the Council for Security Cooperation in Asia Pacific (CSCAP) has proposed that—in the context of the Objectives and Organizational Structure recommended by the EPG, and the various decisions that have been adopted by ASEAN mentioned above—a Peace, Building and Reconstruction Program could be established within the ASEAN Secretariat. This is also consistent with the intention of the ASEAN Summit to strengthen the ASEAN Secretariat. The Peace Building component would be entrusted to deal with preventive diplomacy, conflict resolution and peacekeeping, as deemed necessary. The Reconstruction component would encompass the humanitarian assistance envisaged as part of the post-conflict peace-building activity and the humanitarian assistance provided by ASEAN to cope with natural disasters. The organizational unit within the ASEAN Secretariat responsible for implementing this program would absorb the existing ARF Unit. The relevant governing body for this program is the EPG-proposed Council of the ASEAN Security Community.

Furthermore, following the Declaration of the Leaders of ASEAN which, as mentioned earlier³¹, expressed the readiness of ASEAN to contribute to the promotion of peace and security in the wider Asia Pacific region, the second recommendation of CSCAP is that, in the context of ARF, ASEAN could collaborate with interested South Asian countries, such as India, and those around the Pacific, such as Australia, New Zealand and Canada, to assist in the resolution of the problems being faced by the Pacific countries.

Although ASEAN is at present just entering the preventive diplomacy phase, there seems to be a strong determination of the ASEAN Leaders to move into 'preventive diplomacy and beyond', perhaps with much greater speed. The foundation of confidence building in the region has been firmly laid down and the emergence of the present political and security situation in East Asia could make it possible for such acceleration in their effort to take place. But this would require a substantial amount of efforts, such as: (1) to establish guidelines for the peaceful settlement of disputes; (2) to explore and devise ways and means to prevent conflict, including establishing early warning system to detect the existence of a dispute, perhaps by incorporating the idea of a Regional Risk Reduction Center; (3) to explore the idea of appointing Special Representatives for fact-finding and good offices; (4) to establish additional national peacekeeping centers and devise ways to

³¹ Para. 36.

cooperate and coordinate these national peacekeeping forces; (5) to establish an effective conflict resolution mechanism, incorporating the existing mechanisms such as the High Council, the ASEAN Troika and the enhanced role of the ARF Chair and 'Friends of the Chair'; and, (6) to explore and devise ways to establish an ASEAN Institute for Peace and Reconciliation.

With the adoption of the ASEAN Charter, and as long as ASEAN sticks to the principle of resolving conflicts with peaceful means, it should be feasible for the regional organization to establish its conflict resolution mechanism within the next few years. Lessons from the experience of other regional organizations and arrangements and the United Nations could be used to undertake these tasks expeditiously.

CONCLUSION

ASEAN has indeed gone a very long way to prepare and establish cooperation among its members. This is perhaps inevitable, considering the highly-charged external political and security environment at the beginning due to the Cold War, particularly the Vietnam War, and the different paths taken by the various South-east Asian nations after their independence from their respective colonial

powers. Confidence among them was dismally low. Cooperation in the political and security area was probably difficult, if not impossible, at the very beginning. Attempts to cooperate in the economic field were not easy either, since their economies were competitive instead of complementary with each other. Meanwhile, their economies grew at relatively very high rates due to their adherence to the export-led growth strategy, complemented by increasingly peaceful world and more sustained economic growth process in the West.

With the demise of the Soviet Union in the early 1990s, and thus the end of the Cold War, and the accumulated confidence which had been built among them, ASEAN was more and more able to turn to collaborating in the political and security fields. It is in these fields that ASEAN now needs to accelerate its efforts in order to provide a solid base from which collaboration, in all fields, could be intensified to eventually form an entity, such as the European Union.

Without a much closer collaboration among themselves, ASEAN would not be able to lead the process of forming the larger cooperation of ASEAN+3, ASEAN+6 or others. It is essential that ASEAN participates actively in forming the third world pole, after the United States and a unified Europe.

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